2019
Solvency and Financial Condition Report

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UnipolSai Assicurazioni S.p.A.

Solvency and Financial Condition Report

2019

Translation from the Italian original solely for the convenience of international readers.

CONTENTS

Introduction 5

Definitions and glossary 7

Summary 9

A. Business and performance 19

A.1 Business 20

A.2 Underwriting performance 32

A.3 Investment performance 40

A.4 Performance of other activities 44

A.5 Any other information 46

B. System of governance 49

B.1 General information on the system of governance 50

B.1.1 Tasks and responsibilities of Board of Directors 50

B.1.2 Transactions with related parties 57

B.1.3 Tasks and responsibilities of key functions 58

B.1.4 Remuneration policies 59

B.2 Fit and proper requirements 60

B.3 Risk management system, including the own risk and solvency assessment 62

B.3.1 Risk management system 62

B.3.2 Own risk and solvency assessment (ORSA) 64

B.3.3 Internal model governance 65

B.4 Internal control system 66

B.5 Internal audit function 69

B.6 Actuarial Function 70

B.7 Outsourcing 71

B.8 Any other information 73

C. Risk profile 75

C.1 Underwriting risk 76

C.2 Market risk 80

C.3 Credit risk 84

C.4 Liquidity risk 86

C.5 Operational risk 87

C.6 Other material risks 88

C.7 Other information 89

C.7.1 Sensitivity analysis 89

D. Valuation for solvency purposes 93

D.1 Assets 97

D.1.1 Valuation criteria 97

D.1.2 Quantitative information on asset valuation 101

D.2 Technical provisions 106

D.2.1 Valuation criteria 106

D.2.2 Quantitative information on the valuation of the technical provisions 112

D.2.3 Information on the effects of the application of volatility adjustment 115

D.3 Other liabilities 116

D.3.1 Valuation criteria 116

D.3.2 Quantitative information on the valuation of other liabilities 116

D.4 Alternative methods for valuation 117

D.5 Any other information 120

E. Capital management 123

E.1Own funds 124

E.1.1 Introduction 124

E.1.2 Capital management policy 125

E.1.3 Information on available and eligible own funds 125

E.2 Solvency Capital Requirement and Minimum Capital Requirement 130

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement 131

E.4 Differences between the standard formula and any internal model used 131

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement 134

E.6 Other information 134

QRT models 137

Independent Auditors' Reports 155

Introduction

This "Solvency and Financial Condition Report" was prepared in application:

- of the provisions on disclosure to the public set forth in Articles 290-303 of Title I, Ch. XII, of Delegated regulation EU No. 2015/35 ("Regulation"), supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance ("Directive");
- of the implementing Regulation (EU) 2015/2452, 2 December 2015, as amended, laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with the Directive;
- of IVASS Regulation No. 33, 6 December 2016, concerning the disclosure to the public and IVASS, carrying provisions integrating the contents of the "Solvency and Financial Condition Report" and the regular report to IVASS ("Regular Supervisory Report"), ("Regulation 33").
- of IVASS Letter to the Market Prot. No. 0093309/18 of 28 March 2018 concerning the "Results of comparative analyses on solvency and financial condition reports (SFCR)".

Unless otherwise specified, data are expressed in thousands of euros.

Definitions and glossary

The meaning of the main acronyms and expressions used in this document is summarised below.

Term	Meaning
Capital adequacy	Observance by the company/Group of regulatory solvency capital requirements.
BEL	"Best estimate of liabilities" deriving from insurance contracts.
CAP	Private Insurance Code (Legislative Decree No. 209 of 7 September 2005, as amended).
Capital at Risk	Total capital requirement relating to a specific risk that the company/Group deems necessary to cover losses exceeding a given expected level.
EIOPA	European supervisory authority for occupational pensions and insurance.
Key functions	The Audit, Risk Management, Compliance and Anti-Money Laundering and Actuarial functions.
LoB	Line of Business of insurance activities as defined in annex I of the Regulation.
Market Consistent Balance Sheet (or also "MCBS")	MCBS to be drafted on the basis of the appropriate criteria specified by the Solvency II provisions are based on the concept of fair value.
MCR	Minimum Capital Requirement as defined by Title I - chapter VII of the Regulation. It corresponds to the amount of eligible own funds below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurance companies were allowed to continue their activities.
PIM	Partial Internal Model used to determine the solvency capital requirement.
OF	Own Funds as defined by Title I Chapter IV and Title II Chapters I and II of the Regulation. They represent the financial resources steadily acquired by the company/Group and available to it to absorb losses and to overcome risks generated by business activities on a going concern basis.
ORSA	Own Risk and Solvency Assessment Report to the Authorities.
RAF	Risk Appetite Framework - reference framework which defines - in line with the maximum risk that may be assumed, the business model and the Strategic Plan - the Risk Appetite, any tolerance thresholds, the operational risk limits, specific risk management policies and the reference processes required to define and implement them.
Risk Appetite	Level of risk (overall and by type) that the Group and/or the Company intends to assume for the pursuit of its strategic objectives.
RM	The Risk Margin, corresponding to the cost of holding an amount of eligible own funds equal to the SCR needed to support insurance and reinsurance obligations assumed throughout their contractual life.
SCR	Solvency Capital Requirement as set forth in Title I - chapters V and VI of the Regulation. The amount of that requirement is determined so as to enable insurance companies or groups to be capable, with a likelihood of at least 99.5%, of honouring their obligations to policyholders and beneficiaries in the next twelve months.
Standard Formula Market Wide	Methodology for the calculation of the solvency capital requirement which calls for the application of the standard parameters defined by the Regulation.
TCM	Temporary insurance in the event of death.
Technical Provisions (TP)	Technical provisions determined according to Solvency II criteria, to the extent equal to the amount that an insurance or reinsurance company would have to pay if its contractual rights and obligations were immediately transferred to another company. They correspond to the sum of BEL and RM.
VA	Volatility Adjustment corresponding to an optional adjustment to the risk-free interest rate curve (published by EIOPA) to be applied to determine the BELs.

SUMMARY

Summary

Introduction

This section summarises the key information and any substantial changes taking place in 2019 in the solvency and financial condition of the Company, with regard to:

A. business and performance
B. system of governance
C. risk profile
D. valuation for solvency purposes
E. capital management.

For more detailed information, we refer to later chapters, which provide the information required by current legal provisions summarised in the Introduction.

Business and performance[1]

As regards the Non-Life business in 2019, direct premiums amounted to €6,990.0m (€6,897.5m at 31/12/2018), up by 1.3%. MV TPL premiums amounted to €3,209.3m (–1.9%), while the Land Vehicle Hulls business recorded growth with premiums amounting to €717.6m (+7.4%). In the Non-MV segment, premiums of €3,063.0m were recorded, with growth of 3.6% compared to the 2018 figure, distributed across the various classes.

In terms of the Non-Life loss ratio trend, in the MV TPL segment the technical performance continued to be characterised by compression in the average MV TPL premium due to market competition, counteracted by positive performances as concerns the frequency as well as the average cost of claims, due in particular to the benefits of digital (40% of vehicles insured by UnipolSai are fitted with the black box) and the cost savings obtained thanks to the network of authorised repair shops, managed by the subsidiary Auto Presto&Bene, to which a growing number of claims are routed.

After a 2018 affected by damage caused by storm "Vaia", 2019 was also characterised by a significant loss ratio due to weather-related events of considerable impact not only on the Fire and Other damage to property business, but also on Land Vehicle Hulls as a result of hail storms that hit numerous towns and cities in Italy. The economic effects of the loss ratio from weather-related events were in part reabsorbed by reinsurance, and consequently the combined ratio, net of reinsurance, stood at 94.6%, an improvement compared to 95.2% at 31 December 2018.

The combined ratio for direct business stood at 94.7%, recording a slight improvement on the 94.8% achieved in 2018, with a loss ratio, inclusive of the balance of other technical items, of 66.2%, compared to 66.8% in 2018, while the expense ratio of direct business on premiums written is 28.5%, compared to 27.9% at 31 December 2018.

In the Life segment, the Company recorded significant growth, with the contribution of the performance of Class V policies and payments of around €644m, linked to the entry of new closed pension funds. Direct premiums amounted to €4,079.8m at 31 December 2019 (+30.4% compared to 31/12/2018).

As regards the management of financial investments, 2019 was still characterised by geo-political tensions and, in Italy, by political instability which in August led to a new Government being formed. In September the ECB again dropped the cost of borrowing by 10 basis points and launched a package of measures that included the relaunch, until further notice, of securities purchases on the market. All of this led to keeping the interest rates and spreads on Italian government bonds low and an upward trend in the share markets. In this context, the Company's financial investments portfolio marked very high profitability, also thanks to €146m in net write-backs, standing at 4.4% of the invested assets (3.0% in 2018), of which 3.6% relating to the coupon and dividend component.

Real estate management, the results of which were continuously improving, continued to focus on the renovation of a number of properties, particularly in high-end areas of Milan, in order to seek out opportunities to increase value or generate income, as well as structures intended for business use.

[1] The economic data reported in the section Business and performance are taken from the financial statements of the Company ("Financial Statements").

The relevant transactions concluded during the year are described below.

On 7 February 2019, Unipol Gruppo's Board of Directors approved an extraordinary transaction regarding the banking sector, to be carried out in a unique setting through the

- transfer to BPER Banca S.p.A. of the entire investment held by Unipol, also through UnipolSai, in **Unipol Banca S.p.A.**, equal to the entire share capital of the latter, for a cash consideration of €220m;
- **UnipolReC**'s purchase of two separate portfolios composed of bad and doubtful loans, one owned by BPER Banca and one by Banco di Sardegna for a gross total of €1.3bn, for a consideration of €130m.

Again on 7 February 2019, UnipolSai's Board of Directors resolved to exercise the put option relating to 27.49% of the share capital of Unipol Banca and UnipolReC, held by Unipol based on the option contract signed on 31 December 2013 between Unipol and former Fondiaria-Sai.
In addition, as part of the exercise of the aforementioned put option, UnipolSai's Board of Directors resolved to grant a 5-year loan of €300m to Unipol, also repayable early, at an interest rate of the 3-month Euribor plus a spread of 260 basis points. For Unipol, the aforementioned loan is targeted at maintaining a high level of financial flexibility with an important available liquidity buffer. The loan was disbursed on 1 March 2019.
On 31 July 2019 - with all conditions precedent set forth in the contract being met and, in particular, with the necessary authorisations having been received from the competent Supervisory Authorities - the transaction relating to the group's banking sector was completed in execution of the agreements entered into on 7 February 2019 between Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A., on one hand, and BPER Banca S.p.A., along with the subsidiary Banco di Sardegna S.p.A., on the other.

In June 2019 the Boards of Directors of UnipolSai and the subsidiaries concerned, insofar as they were respectively responsible, approved the following mergers and spin-offs involving UnipolSai and its wholly-owned subsidiaries:

- project for the merger by incorporation of Pronto Assistance S.p.A. into UnipolSai;
- project for the full spin-off of Ambra Property S.r.l. in favour of UnipolSai, UNA S.p.A. Group and Midi S.r.l.;
- project for the partial spin-off of Casa di Cura Villa Donatello S.p.A. in favour of UnipolSai, as well as the full spin-off of Villa Ragionieri S.r.l. in favour of the Company itself and Casa di Cura Villa Donatello S.p.A.

Again in June 2019, the Board of Directors of the subsidiaries UniSalute and Unisalute Servizi approved, within their areas of respective competence, the proportional partial spin-off of Unisalute Servizi, with transfer to a new company of the business consisting in the provision of specialist medical-healthcare services. The proportional partial spin-off was completed on 1 October 2019, with the simultaneous setup of "Centri Medici Dyadea".

On **18 July 2019** a trade union agreement was signed regarding voluntary pre-retirement arrangements for employees meeting pension requirements by the end of 2023.

On **24 July 2019**, in application of the contractual repayment plan, UnipolSai arranged repayment of the first of five annual instalments in equal amounts of €80m of the Restricted Tier 1 subordinated loan disbursed on 24 July 2003 by Mediobanca - Banca di Credito Finanziario SpA for a total nominal amount of €400m, maturing on 24 July 2023.

On **1 August 2019**, UnipolSai finalised the acquisition of 100% of the share capital of Car Server SpA, one of the main operators active in the Italian long-term company fleet rental market, for a price of €96m.

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UnipolSai closed 2019 with net profit of €701.2m, marking significant growth compared to €412.8m profit recorded in the previous year, linked primarily to higher financial profitability tied to market trends. Please note that the profit for 2019 was impacted by the provision of €95.5m for expenses in relation to agreements signed with the company's trade union representatives on pre-retirement arrangements for employees. Last year, the profit was instead impacted by the write-down of €50.1m referring to the equity investment in Unipol Banca.

With regard to operating performance subsequent to the end of 2019, the first part of 2020 was characterised by negative repercussions on growth of the global economy generated for the most part by the worldwide extension of the COVID-19 (Coronavirus) epidemic. The infection from Coronavirus, recently qualified as a pandemic by the World Health Organisation, indeed led to precautionary measures being adopted in China, which were then extended to many other countries, including Italy, to combat the spread of the epidemic. The size of the pandemic, in terms of temporal duration and extension, is currently difficult to estimate, and it is likewise difficult to reliably quantify the negative repercussions that it will have on the global economic cycle. As regards our country, GDP figures below expectations were recorded in the fourth quarter of 2019, confirming the vulnerability of Italy's economy in a context of weak growth in the international economy, and the spread as of the end of February of the health emergency situation led many observers to a considerable downwards review of the 2020 growth forecasts, previously expected to be around +0.5% and now estimated by many in negative growth.

The financial markets have been strongly volatile due to worries that the measures launched in many countries, including Italy, with the aim of combating the spread of the pandemic, will halt the global economy. Indeed, this public health emergency is unleashing highly negative trends in the stock indexes at the end of February 2020, along with an increase in the spread between Italian government bonds and the German Bund. All this may reflect on the Company's financial investments and on the financial management, which continues to be aimed at the consistency of assets and liabilities, with a view to maintaining a proper risk return profile of the portfolio and pursuing selectively an adequate diversification of the risks.
With regard to the trends of the insurance business, starting from the last week of February, due to the increasingly stringent government provisions on the movement of people, there has been a reduction in the signing of new contracts and, with reference to the Non-Life classes, a reduction in claims as well. Excluding currently unforeseeable events and lasting and significant impacts of the ongoing health emergency on the economic cycle as well as the financial markets, the Company expects to close 2020 with a positive result, in line with the objectives defined in the Business Plan, and with an adequate solvency situation.
With particular reference to the solvency situation, it should be noted that, even in the current context, characterized by a strongly negative trend of the financial markets, on the basis of the periodic monitoring carried out internally, even close to the date of approval of this report, the Company continues to meet the capital adequacy requirements envisaged by the regulations.

System of governance

The Company has adopted a "reinforced" type corporate governance system, pursuant to IVASS Regulation no. 38 of 3 July 2018, deemed most suited for the sound and prudent management of the Company.

The governance structure of the Company is based on a traditional management and control model, where the main bodies are the Shareholders' Meeting, the Board of Directors (which operates with the support of board committees) and the Board of Statutory Auditors. The Company has created an Audit Function, a Risk Management Function, a Compliance Function and an Actuarial Function (jointly "Key Functions").

The Board of Directors assesses the position of each of its members, the members of the Board of Statutory Auditors and the General Manager, establishing whether these meet the requirements set by legal and regulatory provisions in force at the time on integrity, professionalism and independence, as well as on the absence of impediments, suspensions and incompatibilities. The Board of Directors also establishes whether the requirements of suitability to the office are met by the Managers of the Key Functions and the Anti-Money Laundering Function, pursuant to company policies in force.

The Company has acquired an articulated and efficient Internal Control and Risk Management System, to ensure that the most significant risks arising from its activity are correctly identified, measured, managed and controlled, as well as being compatible with a sound and correct management. The Board of Directors is responsible for said System and regularly verifies its suitability and actual operation.

The Audit Function assesses the completeness, function, reliability and adequacy of the Internal Control and Risk Management System, in relation to the nature of the business activities and the level of risks taken, as well as for updating it, also through support and advisory activities provided to other company departments. This Report also describes the control tasks of the Actuarial Function with reference to Solvency II Technical Provisions and to the provisions of the Financial statements.
With regard to the outsourcing policies, lastly, UnipolSai is the main service provider of the Unipol Group, independent in almost all corporate areas; with its personnel and skills, it is able to carry out these activities also on behalf of other companies of the Group.

Risk profile

As the Company has received the necessary authorisations from the Supervisory Authority, it calculates its Solvency Capital Requirement for regulatory purposes using the Partial Internal Model ("PIM"), which can provide a better assessment of its actual risk profile than the standard formula.

To provide a more complete representation of the risk profile, the Company has adopted risk classification criteria somewhat different from those proposed by the Standard Formula, which is the method used to calculate the Solvency Capital Requirement ("SCR") for companies that have not developed an internal model. In particular, with regard to market risk, as part of the PIM, the Company also considers the risks relating to the volatility of share prices and interest rates. The Standard Formula is used for risk modules that are not in the PIM perimeter. Parameters specific to the company ("Undertaking Specific Parameters" or "USP") are used to calculate the Premium and Reserve Risk for the following Lines of Business ("LoB") (i) MV TPL (ii) General TPL and (iii) Fire and other damage to property, while the Standard Formula Market Wide is used for the other risk modules.

The Solvency Capital Requirement (SCR) total for the Company at the end of the reference period was €2,911,315k, up by €122,806k compared to the SCR relating to 31 December 2018. The primary changes observed in the main components of the SCR compared to the previous year are summarised below:

- Non-Life and Health Underwriting Risks: there was a reduction in the Non-Life and Health SCR primarily due to the decline in the capital requirement of the Non-Life Premium and Reserve sub-module; this change in the requirement is explained i) by the decrease in volumes with respect to 2018 and ii) the update in USP parameters;
- Life Underwriting Risks: there was an increase in the Life SCR, primarily deriving from the increase in surrender risk. This change can be attributed to i) the joint effect of the lower exposure of surrender frequencies and declining interest rates recorded in the course of 2019, as well as ii) the natural evolution of the policy portfolio;
- Market Risks: the rise in the SCR was primarily due to the increase in the equity module and the interest rate module. Equity risk was up due to i) the reduction in mitigation deriving from strategies in derivatives and ii) the increase in investments subject to equity risk. On the other hand, interest rate risk increased as a result of i) the change in the contribution to the risk of Future Discretionary Benefits (FDB) of the Life technical provisions and ii) an increase in the volatility of the interest rate risk factor and as a result in the shocks applied;
- Credit Risks: there was an increase in the Credit SCR primarily as a result of the higher volume of exposures to reinsurers as well as exposures to other duly identified counterparties;
- Loss-absorbing capacity of technical provisions in the case of losses deriving from unfavourable events regarding market risk factors (ALAC TP): there was an increase in the benefit deriving from the ALAC TPs due to the change in the reference financial context, which generated higher capital losses transferrable to policyholders through extraordinary management actions.

The amount of the SCR for each risk module is shown below along with a comparison with the data relating to 31 December 2018:

Summary

Amounts in €k	2019	2018	Change on 2018
Non-life and health underwriting risks	1,849,835	1,874,950	(25,115)
Life underwriting risks	258,901	215,741	43,161
Market risks	2,372,234	2,089,426	282,808
Credit risks	333,121	275,316	57,805
Diversification	*(1,098,591)*	*(1,023,289)*	*(75,302)*
Basic Solvency Capital Requirement (BSCR)	3,715,500	3,432,143	283,357
Operational risk	475,518	478,003	(2,485)
Loss-absorbing capacity of technical provisions	(491,014)	(363,707)	(127,307)
Loss-absorbing capacity of deferred taxes	(841,496)	(804,422)	(37,073)
Model Adjustment	52,807	46,492	6,315
Solvency Capital Requirement (SCR)	2,911,315	2,788,509	122,806

Note that the risk assessments are carried out applying as long-term measure the Volatility Adjustment (VA).

Valuation for solvency purposes

To calculate the own funds eligible for the coverage of the Solvency Capital Requirement, the Company must prepare a "Market Consistent Balance Sheet" ("MCBS"), enclosed to this Report, on the basis of specific criteria, specified by the Directive and the Regulation, which are different from those used for the preparation of the financial statements. The criteria specified by the Solvency II provisions are based on the concept of fair value and, therefore:

- assets are valued at the amount at which they could be exchanged between knowledgeable and willing parties in an arm's length transaction;
- liabilities are valued at the amount at which they could be sold or settled between knowledgeable and willing parties in an arm's length transaction.

In the valuation of liabilities, any changes in the creditworthiness of the Company subsequent to the issue are not taken into consideration.
There were no substantial changes in the valuation criteria adopted compared to the previous year.

We provide a summary below of the differences between the valuation of assets and liabilities in the financial statements and the MCBS at 31 December 2019 and at the end of the previous year.

Amounts in €k		2019	2018
A	Shareholders' equity (Financial Statement)	6,059,658	5,768,584
	Adjustments by assets/liabilities type		
1	Intangible assets	(741,007)	(754,580)
2	Properties and tangible assets for investment and for own use	296,493	238,710
3	Other financial investments	4,385,289	844,645
4	Technical provisions	(2,667,433)	(440,607)
5	Deferred taxes	(629,798)	(270,723)
6	Other assets and liabilities	(178,024)	(167,949)
	Total adjustments	465,521	(550,504)
B	Shareholders' equity (MCBS)	6,525,178	5,218,080

* Note that the difference with respect to the total shareholders' equity in Balance Sheet Liabilities item 110 in the Company's financial statements (equal to €6,057,811k at 31/12/2019) is due to the recognition in that accounting document of own shares (amounting to €1,847k) as an adjustment to shareholders' equity.

Shareholders' equity from MCBS at 31 December 2019 amounted to €6,525m (€5,218m at 31 December 2018). The increase during the year is primarily due to the positive trend in the financial markets compared to the previous year.

Capital management

The Company has own funds eligible to cover the capital requirements equal to 2.84 times the SCR (2.53 at 31/12/2018) and 5.65 times the Minimum Capital Requirement ("MCR"), 4.73 at 31 December 2018.

The following tables show:

- the amount of own funds eligible to cover capital requirements, with a breakdown by individual tiering level;
- the capital requirements (SCR and MCR) compared to the figure from the previous year;
- the coverage ratios of the capital requirements compared to the data from the previous year.

Eligible of own funds

Amounts in €k	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Total eligible own funds to meet the SCR (A)	8,258,636	5,989,104	1,152,067	1,117,465	
Total eligible own funds to meet the MCR (B)	7,403,189	5,989,104	1,152,067	262,018	

SCR, MCR and Capital Requirement coverage ratios

Amounts in €k	**2019**	2018	Change on 2018
Solvency Capital Requirement (SCR) _ (C)	2,911,315	2,788,509	122,806
Minimum Capital Requirement (MCR) _ (D)	1,310,092	1,254,829	55,263
Ratio of Eligible own funds to SCR (A / C)	2.84	2.53	0.31
Ratio of Eligible own funds to MCR (B / D)	5.65	4.73	0.92

The amount of own funds of higher quality (Tier 1 unrestricted) equal to €5,989,104k (€4,544,442k at 31/12/2018), corresponds to the amount of shareholders' equity from MCBS (€6,525,178k compared to €5,218,080k at 31/12/2018), net of own shares held directly and indirectly (€2,809k compared to €98,921k at 31/12/2018), expected dividends (€452,581k compared to €403,052k at 31/12/2018) and other deductions provided for by the Regulation or by special provisions of the Supervisory authorities (€80,684k compared to €4,002k at 31/12/2018). The changes in value are explained in detail in chapter E. Capital management.

The SCR coverage ratio without the application of the volatility adjustment is 2.78 (2.26 at 31/12/2018). The MCR coverage ratio without the application of the volatility adjustment is 5.54 (4.12 at 31/12/2018).

We provide below the results of the sensitivity analyses carried out by the Company. The analyses refer to the year in question and take, as Base Scenario, the capital adequacy situation calculated according to the regulatory model adopted by the undertaking.

Sensitivities

Description	Impact with respect to central scenario	Impact on Solvency Ratio
Shift upward of the interest yield curve	interest rate: +50 bps	0 p.p.
Shift downward of the interest yield curve	interest rate: -10 bps	3 p.p.
Shock on credit spread – corporate bonds	industrial and financial credit spreads: +100 bps	4 p.p.
Shock on equity market	equity market value: -20%	-5 p.p.
Shock on property market	property market value: -15%	-7 p.p.
Sensitivity on Italian Government spread	Italian Government spread: +100 bps	-44 p.p.

At no time during the year, did the Company fail to meet its Solvency Capital Requirement (SCR) or its Minimum Capital Requirement (MCR).

A

BUSINESS AND PERFORMANCE

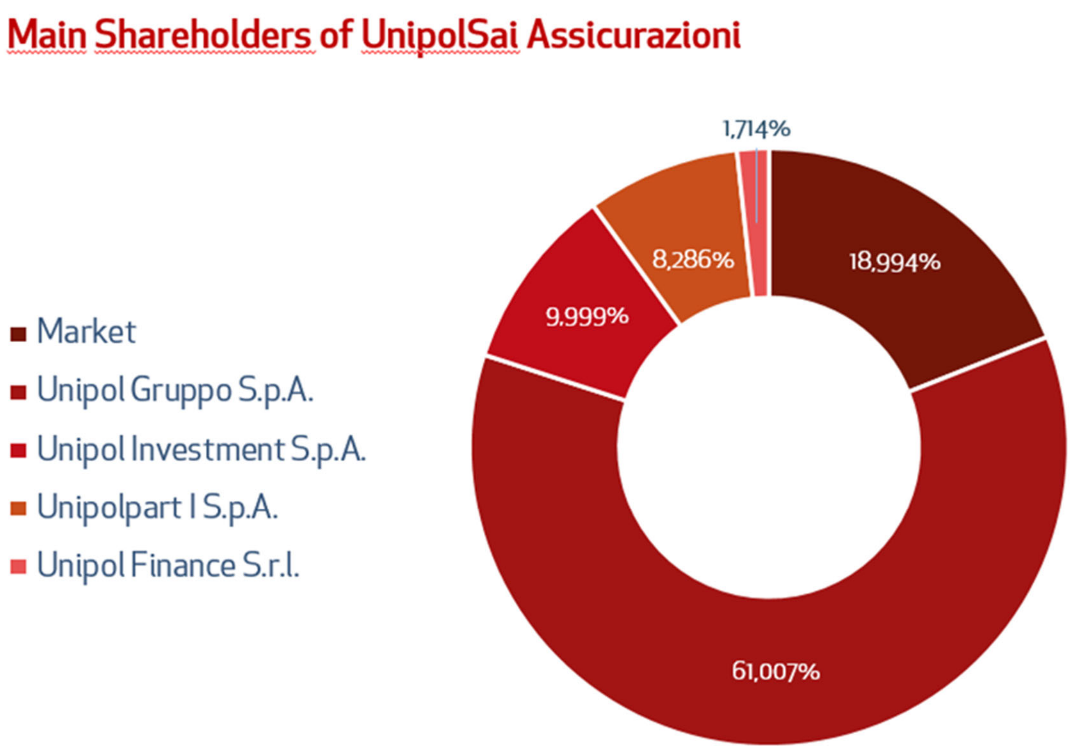
A Business and performance

A.1 Business

Company information

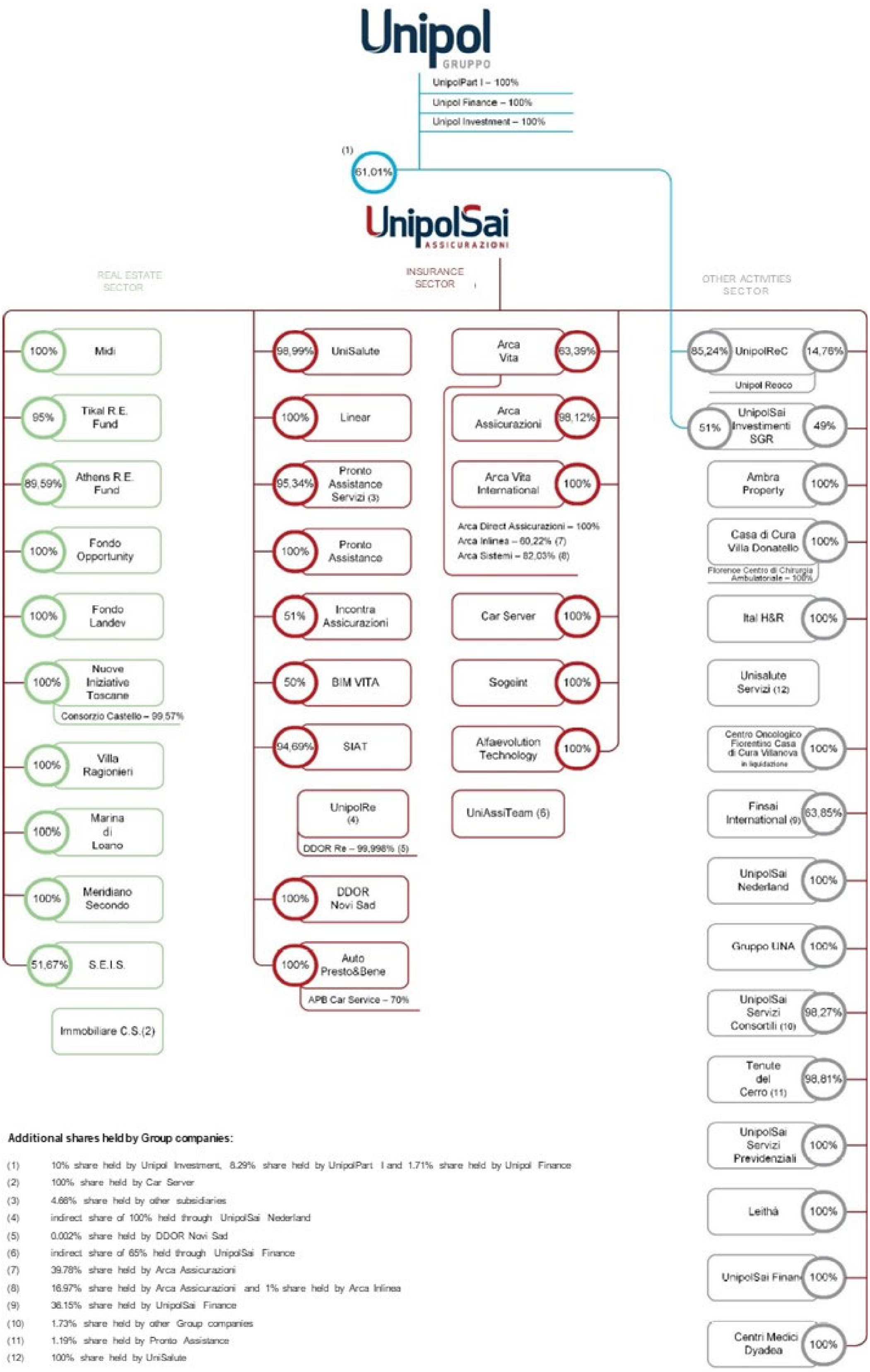
The business purpose of UnipolSai Assicurazioni S.p.A. (henceforth, also the "Company" or "UnipolSai Assicurazioni" or "UnipolSai") is the provision of all insurance, reinsurance and capitalisation classes allowed by law. The Company can also manage supplementary pension schemes allowed by current law, as well as set up, form and manage open pension funds and carry on activities additional to or functional for managing these funds.
Subject to the management and coordination activities of Unipol Gruppo S.p.A. (henceforth, also "Unipol" or "Parent Company"), which, at 31 December 2019, held directly 61.01% of the share capital and indirectly 20%, the Company is listed in the Register of Insurance and Re-insurance Companies Sect. I under No. 1.00006 and is part of the Unipol Insurance Group, with registered office in Via Stalingrado 45, 40128 Bologna, Register of Insurance Groups No. 046.

The shareholding structure is shown in the chart below:



The companies Unipol Finance, Unipol Investment and Unipolpart I are subsidiaries of Unipol Gruppo.

The Company is subject to supervision by IVASS (Institute for Insurance Supervision), in charge of the financial supervision of the Company and the Group to which this belongs.
The independent audit firm appointed by the Company is PricewaterhouseCoopers.
The structure of the Unipol Group is shown below, with the position occupied by the Company within the Group itself.



Additional shares held by Group companies:

(1) 10% share held by Unipol Investment, 8.29% share held by UnipolPart I and 1.71% share held by Unipol Finance
(2) 100% share held by Car Server
(3) 4.66% share held by other subsidiaries
(4) indirect share of 100% held through UnipolSai Nederland
(5) 0.002% share held by DDOR Novi Sad
(6) indirect share of 65% held through UnipolSai Finance
(7) 39.78% share held by Arca Assicurazioni
(8) 16.97% share held by Arca Assicurazioni and 1% share held by Arca Inlinea
(9) 36.15% share held by UnipolSai Finance
(10) 1.73% share held by other Group companies
(11) 1.19% share held by Pronto Assistance
(12) 100% share held by UniSalute

We also provide a list of subsidiaries and associates, and companies subject to unified management at 31 December 2019.

List of subsidiaries and associates

Type (1)	Name	Legal form	Registered office	Portion held Direct %	Portion held Indirect %	Portion held Total	Exercisable voting rights
a	AlfaEvolution Technology S.p.A.	Joint-stock company	Italy	100		100	100
a	Ambra Property S.r.l.	Limited liabilities company	Italy	100		100	100
a	APB Car Service S.r.l.	Limited liabilities company	Italy		70	70	70
a	Arca Assicurazioni S.p.A.	Joint-stock company	Italy		98.12	98.12	98.12
a	Arca Direct S.r.l.	Limited liabilities company	Italy		100	100	100
a	Arca Inlinea S.c.a r.l.	Limited liabilities consortium	Italy		100	100	100
a	Arca Sistemi S.c.a r.l.	Limited liabilities consortium	Italy		100	100	100
a	Arca Vita S.p.A.	Joint-stock company	Italy	63.39		63.39	63.39
a	Arca Vita International Dac	Designated Activity Company	Ireland		100	100	100
b	Assicoop Bologna Metropolitana S.p.A.	Joint-stock company	Italy		49.19	49.19	49.19
b	Assicoop Emilia Nord S.r.l.	Limited liabilities company	Italy		50	50	50
b	Assicoop Modena e Ferrara S.p.A.	Joint-stock company	Italy		43.75	43.75	43.75
b	Assicoop Romagna Futura S.r.l.	Limited liabilities company	Italy		50	50	50
b	Assicoop Toscana S.p.A.	Joint-stock company	Italy		46.77	46.77	46.77
a	Auto Presto & Bene S.p.A.	Joint-stock company	Italy	100		100	100
a	Bim Vita S.p.A.	Joint-stock company	Italy	50		50	50
b	Borsetto S.r.l.	Limited liabilities company	Italy	44.93		44.93	44.93
b	Butterfly Am S.a r.l.	Société à Responsabilité Limitée	Luxembourg	28.57		28.57	28.57
a	Car Server S.p.A.	Joint-stock company	Italy	100		100	100
a	Casa Di Cura Villa Donatello S.p.A.	Joint-stock company	Italy	100		100	100
a	Centri Medici Dyadea S.r.l.	Limited liabilities company	Italy	100		100	100
a	Centro Oncologico Fiorentino Casa Di Cura Villanova S.r.l. in liquidazione	Limited liabilities company	Italy	100		100	100
a	Compagnia Assicuratrice Linear S.p.A.	Joint-stock company	Italy	100		100	100
a	Consorzio per l'attuazione del Piano Urbanistico Esecutivo di Castello in Comune di Firenze	Consortium	Italy		100	100	99.57
a	Ddor Auto D.o.o.	društvo sa ograničenom odgovornošću - Limited liabilities company	Serbia		100	100	100

Type (1)	Name	Legal form	Registered office	Portion held Direct %	Indirect %	Total	Exercisable voting rights
b	Ddor Garant	akcionarsko društvo - Joint-stock company	Serbia		40	40	40
a	Ddor Novi Sad A.D.O.	akcionarsko društvo - Joint-stock company	Serbia	100.00		100.00	100
a	Ddor Re Joint Stock Reinsurance Company	akcionarsko društvo - Joint-stock company	Serbia		100.00	100	100
b	Fin.Priv. S.r.l.	Limited liabilities company	Italy	29		29	28.57
a	Finsai International S.a.	Société Anonyme	Luxembourg	63.85	36	100.00	100
a	Florence Centro Di Chirurgia Ambulatoriale S.r.l.	Limited liabilities company	Italy		100	100	100
b	Funivie Del Piccolo San Bernardo S.p.A.	Joint-stock company	Italy	24		23.55	23.55
b	Garibaldi S.c.a.	Société en commandite par actions	Luxembourg	32		32	32
b	Golf Club Poggio Dei Medici S.p.A. - Societa' Sportiva Dilettantistica	Joint-stock company	Italy		40	40	40.32
a	Gruppo Una S.p.A.	Joint-stock company	Italy	100		100	100
b	Hotel Villaggio Citta' Del Mare S.p.A. in liquidazione	Joint-stock company	Italy	49.00		49.00	49
a	Immobiliare C.S. S.r.l.	Limited liabilities company	Italy		100	100	100
a	Incontra Assicurazioni S.p.A.	Joint-stock company	Italy	51		51	51
b	Isola S.c.a.	Société en commandite par actions	Luxembourg	30		30	29.56
a	Ital H&R S.r.l.	Limited liabilities company	Italy	100		100	100
a	Leitha' S.r.l.	Limited liabilities company	Italy	100		100	100
a	Marina Di Loano S.p.A.	Joint-stock company	Italy	100		100	100
a	Meridiano Secondo S.r.l.	Limited liabilities company	Italy	100		100	100
a	Midi S.r.l.	Limited liabilities company	Italy	100.00		100.00	100
a	Nuove Iniziative Toscane S.r.l.	Limited liabilities company	Italy	100.00		100	100
b	Pegaso Finanziaria S.p.A.	Joint-stock company	Italy		45	45	45
b	Promorest S.r.l.	Limited liabilities company	Italy		50	50	49.92
a	Pronto Assistance Servizi S.c.a r.l.	Limited liabilities consortium	Italy	95.34	5	100.00	100
a	Pronto Assistance S.p.A.	Joint-stock company	Italy	100.00		100.00	100
b	SCS Azioninnova S.p.A.	Joint-stock company	Italy		42.85	43	42.85
b	Servizi Immobiliari Martinelli S.p.A.	Joint-stock company	Italy	20.00		20	20

Type (1)	Name	Legal form	Registered office	Portion held Direct %	Indirect %	Total	Exercisable voting rights
a	Siat-Società Italiana Assicurazioni e Riassicurazioni S.p.A.	Joint-stock company	Italy	94.69		94.69	94.69
a	Società Edilizia Immobiliare Sarda - S.E.I.S. - S.p.A.	Joint-stock company	Italy	52		52	51.67
a	Sogeint S.r.l.	Limited liabilities company	Italy	100.00		100.00	100
a	Tenute Del Cerro S.p.A. - Societa' Agricola	Joint-stock company	Italy	99	1	100	100
b	Ufficio Centrale Italiano S.c.a r.l.	Limited liabilities consortium	Italia	37.37		37.47	37.47
a	UniAssi Team S.r.l.	Limited liabilities company	Italy		65	65	65
a	UnipolRe DAC	Designated Activity Company	Ireland		100	100	100
a	UnipolSai Finance S.p.A.	Joint-stock company	Italy	100		100	100
b	UnipolSai Investimenti SGR S.p.A.	Joint-stock company	Italy	49.00		49.00	49
a	UnipolSai Nederland Bv	Besloten vennootschap	Netherlands	100		100	100
a	UnipolSai Servizi Consortili Societa' Consortile a Responsabilita' Limitata	Limited liabilities consortium	Italy	98	2	100	99.98
a	UnipolSai Servizi Previdenziali S.r.l.	Limited liabilities company	Italy	100.00		100.00	100
a	UniSalute Servizi S.r.l.	Limited liabilities company	Italy		100	100.00	100
a	UniSalute S.p.A.	Joint-stock company	Italy	98.99		98.99	98.99
a	Villa Ragionieri S.r.l.	Limited liabilities company	Italy	100		100	100

Key

a: Subsidiary

b: Associate

Relations with Group companies (Art.2497-bis of the Civil Code)

UnipolSai Assicurazioni provides the following most economically significant services to Group companies:

- Governance (services supporting internal control, risk management and compliance);
- Finance;
- Innovation;
- Communications and Media Relations;
- Anti-money laundering and Anti-terrorism;
- 231 support;
- Institutional Relations;
- Assessment of investments;
- Human resources and industrial relations (personnel administration, external selection, development and remuneration systems, welfare initiatives, personnel management, trade union relations, employee disputes, employee welfare, safety);
- Organisation;
- Training;
- Legal and corporate (corporate affairs, group legal register management, anti-fraud, institutional response, legal insurance consulting, privacy consulting and support, general legal and disputes, corporate legal, complaints, management of investments);

- Claims settlement;
- Insurance (distribution network regulations, MV portfolio management, reinsurance, product marketing, MV tariff setting, development and maintenance of MV products, general class tariff setting, development and maintenance of general class products, technical actuarial coordination, Life bancassurance);
- IT services;
- Actuarial Function Validation;
- Actuarial Function Calculation;
- Administration (accounting, tax, administrative and financial statements services, management control, purchases and general services);
- Real estate (coordination of urban planning processes, strategic real estate asset management, operational management of property sales and purchases, property leasing services, project management, tenders and contracts, logistics and real estate services, facility management, tax and duty property management, real estate appraisals and property management).

These services are charged to the Group companies using the allocated cost method, with the exception of Financial Management, whose consideration is calculated by applying a commission to the assets managed.

UniSalute performs the following services in favour of UnipolSai Assicurazioni:
- managing addressing services, providing medical advice and assistance by telephone, making bookings, managing and settling claims relating to specific guarantees/products on behalf of the Company;
- policyholder record updating services and administrative services associated with the payment of health policy claims.

SIAT – Società Italiana Assicurazione e Riassicurazioni performs the following services in favour of UnipolSai Assicurazioni:
- technical assistance in the negotiation and stipulation of transport and aviation contracts;
- portfolio services for agreements in the transport sector;
- administrative support in the relationships with insurance counterparties.

Directly or through qualified third-party suppliers AlfaEvolution Technology is in charge of the supply and industrial management at the network of installers and agencies of "black boxes", providing connectivity and data transmission services, online data management and additional services that may be activated on the installed devices.

Auto Presto & Bene performs car repair services for UnipolSai Assicurazioni, while APB Car Service provides claims settlement services.

UnipolRe DAC carries out for UnipolSai Assicurazioni administrative and accounting services for inwards and outwards reinsurance with reference to treaties in run-off.

UnipolSai Investimenti SGR administers on behalf of UnipolSai the units of real estate funds owned by UnipolSai Assicurazioni.

Leithà provides, in favour of UnipolSai, innovative services with high technological value and study and analysis of data to support the development of new products and processes and business evolution, including the necessary preparatory and instrumental activities for the realisation of commissioned research projects, and, possibly the development of operating system software, operating systems and applications and database management pertaining and functional to such projects.

Pronto Assistance Servizi provides the following services for the consortium member companies:
- organisation, provision and 24/7 management of services provided by the assistance insurance coverage, by taking the action requested and managing relations with professionals and independent suppliers to which the material execution of the action is assigned, also including settlement of the related remuneration. As part of the Tourism claims management, in addition to the provision of normal Assistance services, Pronto Assistance Servizi, at the request of an individual consortium member will be able to advance medical expense payments on behalf of that member.

- Contact centre activities for customers, specialists and agencies of the Group, whose services consist of:
    - providing front office services to existing or potential customers at all stages of relations with the consortium members and their respective sales networks, or to any intermediaries acting on their behalf (brokers, banks);
    - providing after-sales services on policy statuses or on any transactions that can be made on existing policies;
    - providing customer activities to measure the level of customer satisfaction with the services offered;
    - providing support services to the agency network in relations with customers and consortium members;
    - providing contact centre services dedicated to opening claims and related information requests.

UnipolSai Servizi Consortili continued to manage supply and service activities with regard to:

- logistic and organisational services;
- general services;
- communications, image and brand management.

UnipolSai Servizi Previdenziali, performs administrative management of open pension funds on behalf of a number of Group companies.

The transactions described above were concluded in compliance with applicable regulations, i.e. the cases set out in Art. 2391 of the Civil Code (Directors' interests), the Policy on intragroup transactions and the regulations of transactions with related parties.

Moreover, it is noted that UnipolSai conducts the following transactions with Group companies:

- normal insurance and reinsurance transactions;
- leasing of property;
- agency mandates;
- secondment of personnel;
- long-term vehicle rental.

These transactions, which do not include atypical or unusual transactions, are settled at normal market conditions.

Please see what is reported below in the "Significant events in 2019" section for a description of the extraordinary transactions carried out with Group companies.

Lines of Business

The Company carries out insurance and re-insurance activities both in the Non-Life sector, and in the Life sector and operates in the following Lines of Business ("LoB"), as specified in Annex I of the Delegated Regulation 2015/35:

Line of business Non-Life/Life

	NON-LIFE	
A	**Non-Life insurance obligations**	
1	*Medical expense insurance*	Medical expense insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance.
2	*Income protection insurance*	Income protection insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance, other than obligations included in line of business 3.
4	*Motor vehicle liability insurance*	Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land (including carrier's liability).
5	*Other motor insurance*	Insurance obligations which cover all damage to or loss of land vehicles (including railway rolling stock).
6	*Marine, aviation and transport insurance*	Insurance obligations which cover all damage or loss to sea, lake, river and canal vessels, aircraft, and damage to or loss of goods in transit or baggage irrespective of the form of transport. Insurance obligations which cover liabilities arising out of the use of aircraft, ships, vessels or boats on the sea, lakes, rivers or canals (including carrier's liability).
7	*Fire and other damage to property insurance*	Insurance obligations which cover all damage to or loss of property other than those included in the lines of business 5 and 6 due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.
8	*General liability insurance*	Insurance obligations which cover all liabilities other than those in the lines of business 4 and 6. (9)
9	*Credit and suretyship insurance*	Insurance obligations which cover insolvency, export credit, instalment credit, mortgages, agricultural credit and direct and indirect suretyship.
10	*Legal expenses insurance*	Insurance obligations which cover legal expenses and cost of litigation.
11	*Assistance*	Insurance obligations which cover assistance for persons who get into difficulties while travelling, while away from home or while away from their habitual residence.
12	*Miscellaneous financial loss*	Insurance obligations which cover employment risk, insufficiency of income, bad weather, loss of benefit, continuing general expenses, unforeseen trading expenses, loss of market value, loss of rent or revenue, indirect trading losses other than those mentioned above, other financial losses (non-trading) as well as any other risk of non-life insurance not covered by the lines of business 1 to 11.
B	**Proportional non-life reinsurance obligations**	
13-24	Proportional reinsurance obligations which relate to the obligations included in lines of business 1 to 12 respectively.	
C	**Non-proportional non-life reinsurance obligations**	
25	*Non-proportional health reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in lines of business 1 to 3
26	*Non-proportional casualty reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in lines of business 4 and 8.
27	*Non-proportional marine, aviation and transport reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in line of business 6.
28	*Non-proportional property reinsurance*	Non-proportional reinsurance obligations relating to insurance obligations included in lines of business 5, 7 and 9 to 12.
	LIFE	
D	**Life insurance obligations**	
30	*Insurance with profit participation*	Insurance obligations with profit participation.
31	*Index-linked and unit-linked insurance*	Insurance obligations with index-linked and unit-linked benefits.
32	*Other life insurance*	Other life insurance obligations.
E	**Life reinsurance obligations**	
36	*Life reinsurance*	Reinsurance obligations which relate to the obligations included in lines of business 30 to 32.

The Company operates mainly in Italy, but also, to a marginal extent, under the freedom to provide services regime in some EU and non-EU countries. Please see Par. A.2, which deals with the underwriting activity performance, for a breakdown of the results in terms of lines of business and geographic areas.

Significant events in 2019

Exercise of the put option on Unipol Banca and UnipolReC

On 7 February 2019, the Board of Directors of UnipolSai Assicurazioni ("**UnipolSai**" or the "**Company**") resolved to exercise the put option relating to 27.49% of the share capital of Unipol Banca S.p.A. ("**Unipol Banca**") and UnipolReC S.p.A. ("**UnipolReC**"), held by the holding company Unipol by virtue of the option contract signed on 31 December 2013 between the former Fondiaria-Sai S.p.A. and Unipol Gruppo S.p.A. ("**Unipol**"). On 14 February 2019, UnipolSai notified Unipol of its exercise of the option right. The transfer of the shares was completed on 1 March 2019 against payment by Unipol of a total consideration of €579.1m, calculated on the basis of the option contract. After the exercise of the put option, the direct investment held by UnipolSai in Unipol Banca and in UnipolReC stood at 14.76% of the respective share capital and the corresponding shares of these companies held by Unipol increased to 85.24%.
The Board of Directors of the Company also decided to grant to Unipol, within the scope of the aforementioned put option, a 5-year loan of €300m, also repayable early, at an interest rate of the 3-month Euribor plus a spread of 260 basis points. For UnipolSai, the granting of the afore-mentioned loan represents a form of investment of liquid assets that meets the investment principles compliant with the adopted policy for medium-long term investments as well as the risk profile. The loan was disbursed on 1 March 2019.

The loan was approved by UnipolSai in compliance with provisions of the Policy on intragroup transactions, adopted pursuant to IVASS Regulation no. 30 of 26 October 2016, and - as specified below - in compliance with the Procedure for related party transactions.

Sale of Unipol Banca to BPER Banca and acquisition of NPL portfolios

On 7 February 2019 UnipolSai, along with Unipol and UnipolRec, on one hand, and BPER Banca S.p.A. ("**BPER**"), along with the subsidiary Banco di Sardegna S.p.A. ("**Banco di Sardegna**") on the other hand, entered into agreements concerning an extraordinary transaction on the banking sector of the Unipol Group, to be performed in a single context through the:
- transfer to BPER Banca S.p.A. of the entire investment held by Unipol and by UnipolSai in **Unipol Banca,** equal to the entire share capital of the latter, for a cash consideration of €220m;
- **UnipolReC**'s purchase of two separate portfolios composed of bad and doubtful loans, one owned by BPER Banca and one by Banco di Sardegna for a gross total of €1.3bn, for a consideration of €130m.

On 31 July 2019 - with all conditions precedent set forth in the contract being met and, in particular, with the necessary authorisations having been received from the competent Supervisory Authorities - the transaction, in execution of the agreements entered into by the parties, was completed.

In particular:

- Unipol and UnipolSai sold their holdings to BPER, representing the entire share capital of Unipol Banca, respectively 85.24% and 14.76% of the capital, at the total price of €220m, divided pro rata between the two sellers as approximately €187.5m and €32.5m, respectively;
- UnipolReC in turn acquired two separate non-performing loan portfolios, one owned by BPER and the other by Banco di Sardegna, for a gross carrying amount of around €1.2bn, against a final price of €102m which takes into account the effects of credit management activities from the assessment reference date up to 31 July 2019.

With this transaction, the Unipol Group completed the process of requalification of its strategy in the banking sector, by exiting from the direct business of a medium sized bank, in order to take on the role of major investor of one of the main Italian banking groups.

It also increased the scale of operations of UnipolReC, which became a financial intermediary registered pursuant to Art. 106 of the Consolidated Law on Banking, enhancing its expertise in credit recovery.

On 25 September 2019, following the authorisation granted by the competent Supervisory Authority, BPER filed and entered in the Register of Companies the project for the merger of Unipol Banca into BPER. The deed of merger, signed on 15 November 2019, entered into effect on 25 November 2019, with continuity as part of BPER of all Unipol Banca accounts existing prior to the merger.

MISSION EVOLVE – Always one step ahead: the new 2019-2021 strategic plan

On 9 May, the Board of Directors of UnipolSai S.p.A. approved the 2019-2021 Strategic Plan "MISSION EVOLVE – Always one step ahead". The Strategic Plan aims to reinforce the leadership of UnipolSai over the next three years, laying the foundations to confirm its primacy even beyond the horizon of the Plan.
The new Plan responds to a scenario of profound change in the insurance market as concerns customer expectations, the technological and digital evolution, new competitors and regulatory developments.

In this context, UnipolSai intends to strengthen its leadership in Italy:
- within Non-Life insurance, in terms of the customer portfolio, market share, distribution network and number of black boxes installed (leader in Europe);
- by extending its leadership to the Mobility, Welfare and Property ecosystems.

By leveraging on distinctive assets, the "MISSION EVOLVE – Always one step ahead" is structured based on five strategic guidelines:

- development of technical excellence, with the objective of reaching a combined ratio in the Non-Life business of 93%, in the Life segment the goal is to go beyond the traditional logics based on products by ensuring that the offerings are developing into a life and welfare integrated vision;
- development of distribution excellence, with the objective of reaching in 2021 a revenue at a consolidated level of €8.7bn in the Non-Life business and €5.0bn in the Life business, thus confirming its central role as the top Italian agency network and distinctively positioning itself in the process of developing bancassurance and partnerships;
- beyond insurance, by characterising itself as a reference point for the needs of the customers in the Mobility ecosystems (planning for the launch of new solutions such as long term leases and an online platform for the re-use), Welfare (with tele-medicine) and Property (planning for the development of an integration of insurance, home automation and service) offering integrated solutions;
- people and technology, by accelerating the development process complementing the staff professionalism with new digital skills and the use of technology and automation to simplify the operating model;
- shared value and sustainable development, by contributing to reaching the sustainable development goals of the UN 2030 Agenda.

Fitch raised UnipolSai's rating to "BBB+"

On 29 May 2019, the Fitch Ratings rating agency announced its upgrade of the Insurer Financial Strength (IFS) rating of UnipolSai Assicurazioni S.p.A. to "BBB+", with negative outlook, from "BBB".
At the same time, the rating agency confirmed the Long-Term Issuer Default Rating (IDR) assigned to Unipol Gruppo S.p.A. and UnipolSai Assicurazioni S.p.A. as "BBB" with a negative outlook. Also the ratings of the debt securities issued by the Unipol Group were confirmed: the Unipol Gruppo S.p.A. senior loans were confirmed at "BBB-", the subordinated loans with maturity of UnipolSai Assicurazioni S.p.A. were confirmed at "BBB-" and the perpetual bond loan of UnipolSai Assicurazioni S.p.A. was confirmed at "BB+".

Unica obtains ISO 9001:2015 Quality Certification

On 2 July 2019, UnipolSai obtained ISO 9001:2015 Certification for its Unica (Unipol Corporate Academy) training processes, with definition of the Unica Quality Management System and training of Academy personnel.

Mergers and spin-offs within the Group

In June 2019 the Boards of Directors of UnipolSai and the subsidiaries concerned, insofar as they were respectively responsible, approved the following mergers and spin-offs (the "Transactions") involving UnipolSai and its wholly-owned subsidiaries:
i) project for the merger by incorporation of Pronto Assistance S.p.A. into UnipolSai;
ii) project for the full spin-off of Ambra Property S.r.l. in favour of UnipolSai, UNA S.p.A. Group and MIDI S.r.l.;

iii) project for the partial spin-off of Casa di Cura Villa Donatello S.p.A. in favour of UnipolSai, as well as the full spin-off of Villa Ragionieri S.r.l. in favour of the Company itself and Casa di Cura Villa Donatello S.p.A.

The Transactions are part of a project for streamlining and simplifying the structure of the Group which aims to:

- simplify and further boost the efficiency of the industrial management and administrative, capital and financial organisation of the companies within the Group, eliminating duplications of structures and skills, today placed in companies or company complexes for which the prerequisites for autonomous management and/or income generating capacity have progressively stopped being met;
- concentrate into UnipolSai, or under its direct control, assets or corporate structures functional to the pursuit of the strategic objectives set forth in the 2019-2021 Business Plan.

By communication dated 16 October 2019, pursuant to Art. 201 et seq., Italian Legislative Decree no. 209 of 7 September 2005 and Art. 23 et seq. of ISVAP Regulation no. 14/2008, IVASS granted authorisation to UnipolSai Assicurazioni for the merger by incorporation of Pronto Assistance S.p.A. into UnipolSai Assicurazioni and for the spin-offs, with partial transfer of the company complex to UnipolSai Assicurazioni, of Ambra Property, Villa Ragionieri and Casa di Cura Villa Donatello.

On 21 January 2020, after concluding the required corporate procedures, the deed of merger and the deeds relating to the spin-offs were signed. Following their registration in the respective Registers of Companies, these transactions became legally effective from 1 February 2020. They became effective for accounting and tax purposes as of 1 January 2020 as regards the merger and total spin-offs of Ambra Property and Villa Ragionieri, and as of 1 February 2020 as regards the partial spin-off of Villa Donatello.

Again in June 2019, the Boards of Directors of the subsidiaries UniSalute S.p.A. and UniSalute Servizi S.r.l. approved, within their areas of competence, the proportional partial spin-off of UniSalute Servizi, with transfer to a NewCo of the business consisting in the provision of specialist medical-healthcare services. The proportional partial spin-off was completed on 1 October 2019, with the simultaneous setup of "Centri Medici Dyadea". On 20 December 2019, UnipolSai acquired 100% of the share capital of Centri Medici Dyadea from UniSalute at the price of €5.1m.
Following the spin-off, UniSalute Servizi focuses its activities on the marketing, promotion and management of social and healthcare assistance services, whilst Centri Medici Dyadea is a network of clinics that guarantees quality healthcare in the area of Bologna.

Acquisition of Car Server

On 1 August 2019, UnipolSai finalised the acquisition of 100% of the share capital of Car Server S.p.A. ("Car Server") at the price of €96m, approved by the Company's Board of Directors on 14 March 2019.
Car Server is one of the leading operators on the Italian market for long-term company fleet rental and business mobility management in general. With this transaction, the Group has laid the groundwork for implementation of the 2019-2021 Strategic Plan as regards the mobility ecosystem.

Trade Union agreement regarding Personnel

As part of the implementation of the 2019-2021 Business Plan, on 18 July 2019 a trade union agreement was signed regarding voluntary pre-retirement arrangements for UnipolSai Assicurazioni employees meeting pension requirements by the end of 2023.

The agreement of 18 July 2019 envisaged early retirement for a maximum of 760 individuals, but as over 800 subscribed to the option, on 20 November 2019 a further trade union agreement was signed that will allow all employees subscribing to access the arrangements envisaged in the previous agreement.
In February 2020, the agreement was also extended to the Group's other insurance companies, for which the number of potential applications is not expected to exceed 20.

Repayment of subordinated liabilities

On 24 July 2019, in application of the contractual repayment plan, UnipolSai arranged repayment of the first of five annual instalments in equal amounts of €80m of the Restricted Tier 1 subordinated loan disbursed on 24 July 2003 by Mediobanca - Banca di Credito Finanziario S.p.A. for a total nominal amount of €400m, maturing on 24 July 2023.

"Always one step ahead": the leadership and innovation of UnipolSai Assicurazioni at the heart of the multimedia advertising campaign

In 2019, UnipolSai Assicurazioni was back on air with the **new multimedia advertising campaign "Always one step ahead"**.
Through creativity that effectively combines corporate and product elements, at the same time the campaign emphasises the leadership, expertise and reliability of UnipolSai and its innovative vocation that is consolidated by the offer of insurance solutions combined with state-of-the-art technology services.
With an authoritative and reassuring mood and sophisticated cinematographic processing, the campaign advertises two products dedicated to the world of cars:

- **the Unibox digital device for cars**, the satellite device linked to the KM&Servizi MV policy, which offers a series of functions such as call-out when needed of tow trucks and emergency assistance, and which allows the premium to be modelled according to driving style;
- **the innovative UnipolSai App**, which offers direct management of car details via smartphone or tablet: from the km travelled to routes, and the most sophisticated high-value added services, all readily to hand, such as the option of tow truck call-out and real-time monitoring of its route.

A major advertising project for which Alessandro Gassmann was chosen as the key protagonist and which includes the scheduling of 30-second and 15-second TV advertisements on all the main national networks, in addition to a presence on digital channels, radio and press with creative integration over the various media.

UnipolSai and Sport Festival together again for the second year

For the second year, UnipolSai confirmed its support to the Sport Festival, a large national and international event dedicated to the world of sport to bring champions into contact with fans: debates and analyses along with Olympic and Paralympic athletes, trainers, institutional representatives, technical and other experts and fans. UnipolSai was a Premium Partner of this edition, planned from 10 to 13 October 2019 in Trento.
The support of UnipolSai is born from its conviction that the role of a large company, in addition to creating economic value and well-being, is to generate social value for a broad spectrum of stakeholders, from institutions to social enterprise, from associations to the general public. In this area, sport - experienced with passion, integrity, fairness and team spirit - therefore becomes an educational tool of primary importance and the preferred vehicle for all values necessary to individuals to grow in society.
With its Corporate Sponsorship Program, UnipolSai Assicurazioni strives to become closer to people and to communities by supporting projects that embrace various areas, including sports.

Car Server judged to be at the top for its long-term rental administrative management

On 27 September 2019, Fleet Magazine presented its "Rental&Quality" research during the Customer Centricity event, which analysed 100 large companies. Some of the aspects studied included: commercial relationships, customer service, information technology, consulting and telecommunications and administrative management, the section in which Car Server was awarded the best score, thanks to the management of the obligations laid out in Article 94 of the Highway Code and the clarity and comprehensibility of the documents sent.

Insurance Day 2019 - awards

On 17 October 2019, during the XVIII edition of Insurance Day 2019, the exclusive annual event for the top management of major insurance companies, the Group was awarded a number of recognitions. Amongst other awards, our Group received:

- the "Companies of Value" Award for the best stock exchange performance at 30 June 2019;
- the "Golden lion" for the best Creative IVASS capable of combining detailed service information with appropriate positioning in commercial advertising;
- the MF Innovazione Awards Award in the "Home protection" category for the UnipolSai product Condominio&Servizi;
- the "Best Company for direct premiums 2018" Awards in the Non-Life business;
- the "Elite Insurance and Pension Scheme" Award for the Auto segment service platform communication strategy.

A.2 Underwriting performance

Non-Life insurance business

Direct business premiums at 31 December 2019 amounted to €6,981.9m, up by €93m compared to 2018 (€6,888.9m). Also considering indirect business, premiums acquired during the year amounted to €6,992.8m (€6,899.6m in 2018).

In the MV sector, premiums continued to decrease for MV TPL substantially due to lower average premium, most of which offset by the increase in Land Vehicle Hulls premiums.
The deterioration in the technical result was caused by weather events taking place in the summer, which impacted the Land Vehicle Hulls segment, the effects of which were in large part offset by the improvement in MV TPL, due to the decline in the claims frequency and the limitation of average costs.

In the Non-MV business, the growth in premiums is spread across the various segments and classes. The segment closed the year with a technical result marking an improvement on the previous year, with major contributions from General TPL and Assistance business.

With regard to claims reported, during the year 2,338,254 claims were received for all Non-Life classes, an increase of 2.9% compared to those received in 2018.
In 2019, the Claims Department managed 1,414,791 claims reported during the year for the Company (of which roughly 78% have already been settled with payment) in addition to 447,830 claims from previous years existing at 1 January or reopened (of which nearly 64% already settled with payment).
"Fault" claims (Non-Card, Debtor Card or Natural Card) totalled 595,455, down by 0.7% (599,820 in 2018).
Claims that present at least a Debtor Card claims handling, totalled 339,897, down by 0.6% compared to the same period in the previous year.
Handler Card claims totalled 447,850 (including 107,495 Natural Card claims, claims between policyholders at the same company), down by 1.3%. The settlement rate in 2019 was 82.5%, down from the same period of last year (82.9%).

The weight of cases to which the Card agreement may be applied (both Handler Card and Debtor Card claims)[2] out of total cases (Non-Card + Handler Card + Debtor Card) in 2019 came to 84.2% (84.1% in 2018).
The average cost (amount paid plus amount reserved) for claims reported and handled (including claims reported late) declined by 0.8% in 2019 (-2% in 2018).

We describe below the qualitative and quantitative results of the underwriting activities of the company, both at the aggregate level, and by line of business / geographic area in which the activities were carried out during the reference period.

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[2] "Debtor Card claims" are those claims managed by other companies for which their policyholders are fully or partially liable, and are settled through a specific clearing house set up at CONSAP.
"Handler Card claims" are those managed by companies whose policyholders are not liable, either fully or partially. In these cases, the company receives a lump-sum repayment from the counterparty's insurance company. Lastly, Non-Card claims are those which do not fall within the Card agreement.

The table below shows the amounts recorded for premiums written, premiums earned, claims incurred, changes in other technical provisions and expenses, broken down by line of business, to match the quantitative model ("Quantitative Reporting Template" or "QRT") S.05.01.02. "Premiums claims and expenses by LoB", which can be found among the annexes of this report.

To provide a better understanding of the "Underwriting performance" object of this disclosure with respect to data reported in the financial statements, we note the following:

- all items, reported below, are shown net of the amount ceded under re-insurance agreements;
- "premiums written" include the premiums written in the reference period, net of the reversals and profit participation, as well as reversals of premiums issued during the year;
- "premiums earned" include, in addition to premiums written, the change in pro rata premium provision and the provision for unexpired risks. For the Life business, the change in the provision for premiums brought forward is included;
- "claims incurred" includes all charges related to claims paid out and the change in the provision for direct reimbursements and expenses, while, in compliance with the specific directions provided by legal and regulatory provisions, this item does not include the settlement expenses and the corresponding change in the provision for settlement expenses. This item also includes contributions of a technical nature, such as, for example, the fund for victims of road accidents, the legal defence costs, the amounts recovered or to be recovered from third parties for deductibles and/or reimbursements and some specific technical charges that by nature may be treated as claim expenses (for example the contribution to the management of MV claims);
- the "changes in other technical provisions" includes all other provisions not included in the previous item. For the Life business, the change in the mathematical provisions and the Class D provisions were also allocated to this item;
- the "expenses incurred" include all expenses of the period directly related to the specific activity such as the commissions and any other acquisition charge, collection commissions, administrative expenses, investment management charges (which, in the financial statements, are reported in the non-technical account), some technical charges that for their nature may be treated as expenses, for example convention costs, the CARD contributions and management rights, as well as the settlement expenses and the change in the corresponding provision for expenses as required by reference provisions;
- in the case of net gains (losses) and/or other income statement items (e.g. changes in provisions) that can take values both positive and negative, the negative figures represent a cost for the Company.

If it is believed to be useful for a clearer description, as required by Art. 307 of the Regulation, in the rest of the paragraph we will comment on the underwriting performance of the main LoBs, bringing their perimeters back to those identified on the basis of activity classes ("Classes") identified in the Insurance Code, Legislative Decree 7 September 2005, No. 209, Art. 2;

Non-life underwriting performance 2019

Amounts in €k	Line of business	Premiums written (a)	Premiums earned (b)	Claims incurred (c)	Changes in other techcnical provisions (d)	Expenses incurred (e)	Other expenses (f)	Underwriting performance (g)=(b)-(c)+(d)-(e)-(f)
Insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	1- Medical expense insurance	241,138	237,192	107,252	2,492	103,055		29,377
	2-Income protection insurance	546,721	542,349	272,817	(228)	235,914		33,389
	3-Workers' compensation insurance							
	4-Motor vehicle liability insurance	3,162,570	3,167,429	2,065,779		1,008,507		93,143
	5- Other motor insurance	715,041	684,865	440,955	(1,790)	238,823		3,298
	6-Marine, aviation and transport insurance	18,077	18,215	8,916	(59)	16,091		(6,851)
	7-Fire and other damage to property insurance	1,071,619	1,050,640	572,235	(36,429)	494,812		(52,837)
	8-General liability insurance	687,419	674,044	200,285		297,658		176,101
	9-Credit and suretyship insurance	26,895	20,996	(3,106)	5,214	33,383		(4,067)
	10-Legal expenses insurance	15,169	12,958	2,152		(6,793)		17,600
	11-Assistance	24,567	26,167	5,610		7,677		12,881
	12-Miscellaneous financial loss	68,174	66,835	25,903	(5)	28,112		12,815
Accepted non-proportional reinsurance	13- Health	268	268	77				191
	14-Casualty	404	404	1,673				(1,268)
	15-Marine, aviation and transport			(29)				29
	16-Property	374	374	326				48
	Total	6,578,436	6,502,736	3,700,844	(30,805)	2,457,241		313,846

Non-life underwriting performance 2019 and 2018

Amounts in €k	Line of business	Underwriting performance 2019	Underwriting performance 2018	Change on 2018
Insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	1- Medical expense insurance	29,377	(800)	30,177
	2-Income protection insurance	33,389	71,920	(38,531)
	3-Workers' compensation insurance			
	4-Motor vehicle liability insurance	93,143	81,714	11,429
	5- Other motor insurance	3,298	47,896	(44,599)
	6-Marine, aviation and transport insurance	(6,851)	(10,515)	3,664
	7-Fire and other damage to property insurance	(52,837)	(75,080)	22,243
	8-General liability insurance	176,101	116,907	59,193
	9-Credit and suretyship insurance	(4,067)	(1,080)	(2,987)
	10-Legal expenses insurance	17,600	19,651	(2,051)
	11-Assistance	12,881	(5,294)	18,174
	12-Miscellaneous financial loss	12,815	10,754	2,061
Accepted non-proportional reinsurance	13- Health	191	111	80
	14-Casualty	(1,268)	669	(1,938)
	15-Marine, aviation and transport	29		29
	16-Property	48	227	(179)
	Total	313,846	257,080	56,766

Premiums written, equal to €6,578,436k (€6,471,741k at 31/12/2018), are stated net of reinsurance and are composed of gross premiums related to direct business for €6,981,875k (€6,888,863k at 31/12/2018) and indirect business for €10,926k (€10,774k at 31/12/2018), net of the premiums ceded and retroceded amounting to €414,366k (€427,896k at 31/12/2018).

Premiums earned, equal to €6,502,736k (€6,409,879k at 31/12/2018), are stated net of reinsurance and are composed of gross premiums related to direct business for €6,899,589k (€6,834,037k at 31/12/2018) and indirect business for €11,629k (€11,085k at 31/12/2018), net of €408,481k (€435,243k as at 31/12/2018) in premiums ceded and retroceded.

Claims incurred amounted, net of reinsurance, to €3,700,844k (€3,752,984k at 31/12/2018) and are composed of gross expenses from direct business for €3,957,009k (€4,002,013k at 31/12/2018) and indirect business for €9,170k (€4,255k at 31/12/2018), net of €265,334k in claims ceded and retroceded (€253,284k at 31/12/2018). There were no significant variances in the change in the component of other technical provisions.

Expenses incurred were €2,457,241k, essentially in line with the figure from the previous year (€2,375,200k), of which:

- administrative expenses for €326,199k (€318,137k at 31/12/2018);
- expenses for the management of investments for €27,272k (€25,850k at 31/12/2018);
- expenses for the management of claims for €451,004k (€434,499k at 31/12/2018);
- acquisition costs were €1,163,284k (€1,145,100k at 31/12/2018), of which €3,005k relating to indirect business, net of the reinsurers' share equal to €154,636k (€149,024k at 31/12/2018);
- overheads for €489,481k (€451,615k at 31/12/2018).

Overall, the Non-Life business had positive underwriting performance of €313,846k (€257,080k at 31/12/2018), the breakdown by LoB of which is shown in the previous tables.
We provide below some brief comments on the underwriting performance of the main LoBs.

The positive performance in LoB 1 and LoB 2 reflected, although with a different segmentation, the favourable performance of the Accidents Class and the Health Class. In particular, in the retail segment the Accidents Class benefitted from higher portfolio retention and the effects of a number of initiatives and commercial campaigns successfully activated on the most distributed products in the catalogue. In the segment of collective risk cover, several contracts of significant amounts were renewed. Other unprofitable policies were not renewed and were offset by new higher margin acquisitions.
The growth in the number of claims and the overall cost of claims was due to the presence of specific collective cover characterised by high frequency, primarily in the area of sports risks, and a higher level of insurance cover provided by more recently introduced individual products.
The technical balance for this class was largely positive.
The Health class closed the year with premiums down slightly compared to the previous year. In the Households and Small and Medium Enterprises sectors both premiums and policyholders were on the rise, while in the Large Companies segment the portfolio is naturally down, following the strategic decision to direct new business towards the subsidiary UniSalute, the Group company specialised in this type of risk.
The Households and Small and Medium Enterprises sectors, which were particularly profitable, benefitted from commercial initiatives aiming to maintain contracts in the portfolio and acquire new customers.
On the claims front, the trend under way in previous years was confirmed, in the presence of claims reported referring to high-frequency guarantees of limited average amounts, resulting in a significant reduction in the amount of total expenses, contributing to the improvement in the result for this class.

The positive underwriting performance of €93,143k (€81,714k in 2018) for LoB 4 (Motor vehicle liability insurance), corresponding to Class 10 (TPL land vehicles), was up slightly compared to the previous year due on one hand to a decline in premiums, like what is happening at market level, and on the other an improvement in the claims frequency and cost.

The consistent decline in the positive result obtained in LoB 5 (Other motor insurance), corresponding to Class 3, of €44,599k, can be attributed to the significant increase in the number of claims and the relative cost, in large part due to strong hail in the summer months and, to a lesser extent, in line with the development recorded by the class.

For LoB 7 (Fire and other damage to property), corresponding to Class 8 (Fire) and Class 9 (Other damage to property), the negative underwriting performance was primarily due:

- as regards the Fire component, there was a slight increase in premiums, due to cover for the Individuals line, while in the Corporate segment premiums were down slightly due to continuing tariff competition in the market. Only for larger risks, an upward trend is beginning to be seen in premiums. As regards claims, there was a consistent deterioration both in the number of claims reported as well as the total cost, owing mainly to weather events that struck a significant portion of the country with increasing frequency and intensity;
- in other damage to property premiums there was a good general increase despite the reduction in the Hail class due to a specific decision made by the Company to reduce its overall exposure. The decline in claims reported can be attributed primarily to the Hail and Property sectors, while those reported in the homes segment remained stable. The amount paid out was also basically stable.

LoB 8 premiums, corresponding to Class 13 (General TPL), recorded a small increase, with basically similar trends amongst the various sectors.
The careful risk selection policy during the underwriting phase and the activities undertaken on the portfolio intending to improve the claims/premiums ratio led to a further decline in the number of claims reported and a significant reduction in costs, confirming the improvement already observed in the prior year and a significant improvement in this class's technical result for 2019.

LoB 11 Assistance, corresponding to the analogous Class 18, posted a significant increase in premiums caused by growth in the number of guarantees given linked to road traffic as well as the increase in the average premium. Both claims reported and overall costs reported a limited increase. The intense programme launched in 2018 with a view to gradually bringing class margins into line with the best market performance, through tariff-related, regulatory, organisational and cost limitation initiatives, already triggered a satisfactory improvement in the technical result of the class in 2019.

Life insurance business

The individual policy sector recorded 16.6% growth compared to 31 December 2018. The increase was caused by Class I single premiums, confirming the appeal of the UnipolSai Investimento Garantito product, as well as Class V, thanks to the issue of capitalisation policies totalling roughly €160m.

In 2019, detrimentally affected by largely unfavourable financial markets, new Class III business was down (-45.0%). Among the Multi-segment products, the excellent performance of the Pip UnipolSai Previdenza Futura continued.

Again in the individual policies sector, Class IV premiums continued to increase (+51.8%) which, albeit not significant in absolute terms, shows a growing interest in products that guarantee coverage for risks other than death, such as those with long-term care coverage and coverage against the onset of serious illnesses, an additional cover that can be combined with the term life product.

The decline in first year premiums compared with the previous year (-13.2%) can be attributed primarily to the drop in premiums from Class III products (-42.1%).

Premiums on collective policies showed an increase compared with the same period of the previous year (+53.9%), due to the extraordinary growth of Class VI (+96.6%). Two new agreements executed with Fondo Pensione Gruppo Banco Popolare for roughly €431.6m and Fondo Espero for €212.4m brought Class VI income (excluding the Open Pension Fund) to €1,236.7m.

In 2019, the Company, continuing with its allocation of new investments in order to optimise flows and returns, updated the Segregated Funds of the main revaluable products.
In particular, since 10 April 2019, the Class I Investment product with single premium, UnipolSai Investimento Garantito, has been available on the market. It features the possibility of making additional payments, to remodel surrender penalties, to introduce a new overhead bracket and a new variable management fee according to Active Premium Accumulation (Cumulo Premi Attivi - CPA). In the last part of the year, a new intervention on that product was necessary to adjust its pricing to the rising cost of financial guarantees. As a result, as of 24 September 2019 a new version has been marketed which calls for an increase in the annual management fee and a change in the underlying Segregated Funds, while the product’s other characteristics have remained unchanged.

Life underwriting performance 2019

Amounts in €k	Line of business	Premiums written (a)	Premiums earned (b)	Claims incurred (c)	Changes in other techcnical provisions (d)	Expenses incurred (e)	Other expenses (f)	Underwriting performance (g)=(b)-(c)+(d)-(e)-(f)
Life insurance obligations	1-Health insurance							
	2-Insurance with profit participation	2,572,335	2,579,542	3,314,679	152,620	200,258		(782,776)
	3-Index-linked and unit-linked insurance	1,393,402	1,393,402	555,010	(1,069,459)	19,335		(250,402)
	4-Other life insurance	107,529	101,068	27,163	(1,150)	7,003		65,752
	5-Annuities stemming from non-life insurance contracts and relating to health insurance obligations							
	6-Annuities stemming from non-life insurance contracts and relating to insurance obligations							
Life reinsurance obligations	7-Health reinsurance							
	8-Life reinsurance	85	85	600	460	12		(67)
	Total	4,073,351	4,074,096	3,897,452	(917,528)	226,609		(967,493)

Life underwriting performance 2019 and 2018

Amounts in €k	Line of business	Underwriting performance 2019	Underwriting performance 2018	Change on 2018
Life insurance obligations	1-Health insurance			
	2-Insurance with profit participation	(782,776)	(756,610)	(26,166)
	3-Index-linked and unit-linked insurance	(250,402)	78,371	(328,773)
	4-Other life insurance	65,752	63,264	2,488
	5-Annuities stemming from non-life insurance contracts and relating to health insurance obligations			
	6-Annuities stemming from non-life insurance contracts and relating to insurance obligations			
Life reinsurance obligations	7-Health reinsurance			
	8-Life reinsurance	(67)	354	(421)
	Total	(967,493)	(614,621)	(352,872)

Premiums written, equal to €4,073,351k (€3,120,343k at 31/12/2018), correspond to the amount of gross premiums relating to direct business for €4,079,258k (€3,126,138k at 31/12/2018) and indirect business for €106k (€293k at 31/12/2018), net of the premiums ceded and retroceded for €6,013k (€6,088k at 31/12/2018).

Premiums earned are stated net of reinsurance, and amounted to €4,074,096k (€3,127,409k at 31/12/2018), and are composed of gross premiums relating to direct business for €4,080,004k (€3,133,203k at 31/12/2018) and indirect business for €106k (€293k at 31/12/2018), net of €6,013k in premiums ceded and retroceded (€6,088k at 31/12/2018).

Claims incurred amounted, net of reinsurance, to €3,897,452k (€2,612,016k at 31/12/2018) and are composed of gross expenses from direct business for €3,906,124k (€2,620,060k at 31/12/2018) and indirect business for €1,560k (€1,766k at 31/12/2018), net of €10,233k in claims ceded and retroceded (€9,811k at 31/12/2018).

The variation in other provisions totalled a negative €917,528k (negative €911,135k net at 31/12/2018), net of the share reinsured and retroceded equal to a cost of €8,118k, and consisted mainly of:
- the income for the change in mathematical provisions for €157,998k (€478,701k at 31/12/2018);
- the cost for the change in class D provisions for €1,075,527k (income of €432,434k at 31/12/2018);

The "expenses incurred" were €226,609k (€218,879k at 31/12/2018) and included:
- administrative expenses for €49,666k (€48,280k at 31/12/2018);
- expenses for the management of investments for €61,594k (€58,622k at 31/12/2018);
- expenses for the management of claims for €3,708k (€3,591k at 31/12/2018);
- acquisition costs for €34,012k (€33,498k at 31/12/2018), net of the reinsurers' share equal to €664k (€1,346k at 31/12/2018);
- overheads for €77,629k (€74,887k at 31/12/2018).

On the whole, the Life business recorded a net loss of €967,493k (negative €614,621k at 31/12/2018), determined by a negative underwriting performance equal to €782,776k for the LoB "Insurance with profit participation" (Class I and Class V), a negative €250,402k of the LoB "Index-linked and unit-linked insurance" (Class III and VI) and the €65,752k from the LoB "Other life insurance" (Class IV). The result of indirect business, completely marginal in the Life segment, was negative for €67k.

We note that, as required by legal and regulatory provisions, the positive and negative income items that produce the net underwriting performance of the Life business do not include the income of the financial assets to which the revaluation of the services provided to policyholders is linked; this is instead discussed in Par. A.3 Investment performance.

The policies in the LoB Insurance with profit participation, which record premiums written equal to €2,572,335k (€2,133,950k at 31/12/2018), have the most significant impact on total premiums of the Life business, showing the preference of customers for products offering financial protection such as the revaluable products.

The LoB Index-linked and unit-linked insurance, with premiums written for €1,393,402k (€877,062k at 31/12/2018), includes the activity for the management of mutual funds created for the provision of services in the case of death, in the case of life or in the case of discontinuance or curtailment of work activity and the insurance on the length of human life, whose main benefits are directly linked to the value of units of a UCITS, or the value of the assets in an internal fund or else to an index or other reference values.

The LoB "Other life insurance" also includes the premiums, claims, provisions and expense components deriving from "temporary insurance in the event of death", as required by regulations.

Geographic areas

As regards direct business, for all lines of business specified in Annex I to the Delegated Regulation (EU) 2015/35, information must be broken down by the country in which the contract was concluded, which is understood to be:

a) the country in which the insurance company (country of origin) is located, if the contract was not sold through a branch or under the freedom to provide services;
b) the country in which the secondary office (host country) is located, if the contract was sold through a branch;
c) the country in which the freedom to provide services (host country) was notified, if the contract was sold under the freedom to provide services.

Unlike what is specified above, direct insurance activity for LoB 1 Medical expense (Classes 1 and 2), LoB 2 Income protection (Classes 1 and 2), LoB 7 Fire and other damage to property (Classes 8 and 9) and LoB 9 Credit and suretyship (Classes 14 and 15), is reported by the country in which the risk is located.

For proportional and non-proportional re-insurance, the information is provided according to the country in which the transferring company is located.

We note, in this regard, that the Company carries out its insurance activity almost exclusively (more than 99% of premiums) in Italy.

A.3 Investment performance

Financial operations in 2019 were consistent with the Investment Policy guidelines adopted by the Company and with the recommendations of the Group Investments Committee and Financial Investments Committee.

The criteria of high liquidity of investments and prudence were the guidelines of the investment policy, maintaining the necessary consistency with the liability profile. The investment policy applied the criteria of optimising the portfolio's risk-return profile.
With a view to simplifying the asset portfolio, the reduction of level 2 and 3 structured securities according to the IFRS 13 hierarchy continued, both through sales and when the securities reached their natural maturity. The following table shows the changes that took place during the year.

2019 was characterised by operations focused on bonds and stocks. The weighting of investments in government bonds was basically unchanged. The exposure to the bonds of non-government issuers was down, due to a reduction of financial corporate securities against a less than proportional increase of industrial corporate securities.
Interest rate derivative transactions, in particular on the Non-life portfolio, were geared towards optimising the strategies for mitigating the risk of a rise in interest rates.

With respect to real estate investments, during the year the Company continued to develop its owned property assets in order to subsequently leverage the refurbished properties with a view to leasing or use for business purposes. The projects are characterised by the use of technologies designed to maximise energy savings, including by relying on renewable energy.

As regards sales, the transfer of ownership of some real estate units was completed, regarding the broader sale of approximately 500 real estate units located in various areas of Italy launched in the previous year.

In addition, amongst other transactions, note should be taken of the sale of some properties for a significant amount located in Bologna (office use), as well as the sales of real estate units for residential use located in Rome via Ciro Menotti and via Clitunno, Milan via Monti, via De Missaglia (Le Terrazze complex) and via Castellanza. Overall, during the year, properties were sold for a total amount of approximately €223m.

The breakdown of current gains (losses) on investments and financial income (charges) and gains and losses on trading are shown in the table below, with separate indication of net income (charges) relating to investments for the benefit of policyholders that bear the risk arising from pension fund management (Class D). Please note that the results deriving from the investment portfolio classified in the long-term segment are included.

Gains on investments and financial income

Amounts in €k	FY 2019	% Comp.	FY 2018	% Comp.	Variation 2019/2018 amount	Variation 2019/2018 %
Gains on investments and financial income						
Land and buildings	62,256	3.8	69,178	4.3	*(6,922)*	*(10.0)*
Shares and holdings	109,746	6.8	104,290	6.4	*5,456*	*5.2*
Bonds	1,246,726	76.8	1,282,410	79.2	*(35,684)*	*(2.8)*
Mutual investment fund units	102,816	6.3	75,333	4.7	*27,484*	*36.5*
Loans	12,198	0.8	11,204	0.7	*994*	*8.9*
Bank deposits		0.0	80	0.0	*(80)*	*(99.8)*
Bank and post office deposits	4	0.0	7	0.0	*(3)*	*(42.7)*
Sundry financial investments	89,257	5.5	76,784	4.7	*12,474*	*16.2*
Reinsurance deposits	219	0.0	309	0.0	*(90)*	*(29.1)*
Total (a)	**1,623,223**	**100.0**	**1,619,594**	**100.0**	***3,629***	***0.2***
Gains on sale						
Land and buildings	52,849	9.1	42,654	9.6	*10,195*	*23.9*
Shares and holdings	53,012	9.2	119,086	26.8	*(66,073)*	*(55.5)*
Bonds	386,778	66.8	199,219	44.9	*187,559*	*94.1*
Sundry financial investments	11,445	2.0	26,035	5.9	*(14,591)*	*(56.0)*
Mutual investment fund units	75,082	13.0	57,184	12.9	*17,898*	*31.3*
Total (b)	**579,166**	**100.0**	**444,178**	**100.0**	***134,988***	***30.4***
Total (a+b)	**2,202,389**		**2,063,772**		***138,617***	***6.7***
Reversals on investments						
Land and buildings	10,557	4.4			*10,557*	
Shares and holdings	13,958	5.9	58,786	51.7	*(44,829)*	*(76.3)*
Bonds	156,214	65.7	206	0.2	*156,008*	*75629.8*
Sundry financial investments	2,035	0.9	48,218	42.4	*(46,183)*	*(95.8)*
Mutual investment fund units	55,004	23.1	6,575	5.8	*48,429*	*736.5*
Total (c)	**237,768**	**100.0**	**113,785**	**100.0**	***123,982***	***109.0***
TOTAL (a+b+c)	**2,440,156**		**2,177,558**		***262,599***	***12.1***
Investment income of Class D						
Investment funds and market indices	105,717		12,313		*93,404*	*758.6*
Pension funds	223,385		102,274		*121,111*	*118.4*
Total Class D	**329,102**		**114,587**		***214,516***	***187.2***
GRAND TOTAL	**2,769,259**		**2,292,144**		***477,114***	***20.8***

Ordinary income on investments and uses of cash was €1,623,223k (€1,619,594k at 31/12/2018): this item includes accrued interest receivables, accrued rent, dividends collected, any capitalised issue and trading discount and positive differential collected against interest rate swap contracts.

Capital gains on disposal were overall equal to €579,166k (€444,178k at 31/12/2018). The reversals of impairment losses were equal to €237,768k (€113,785k at 31/12/2018).

Overall, net financial income, including the reversals of impairment losses on investments (relating to reversals of impairment losses on real estate and equal to €10.6m), and excluding the income on investments of Class D, was €2,440,156k (€2,177,558k at 31/12/2018).
The income on investments for the benefit of policyholders who bear the risk arising from pension fund management (Class D) was equal to €329,102k (€114,587k at 31/12/2018).

Asset and financial charges

Amounts in €k	FY 2019	% Comp.	FY 2018	% Comp.	Variation 2019/2018 amount	%
Asset and financial charges						
Land and buildings	17,285	9.3	19,410	10.6	*(2,125)*	*(10.9)*
Shares and holdings	2,109	1.1	2,390	1.3	*(281)*	*(11.7)*
Bonds	62,021	33.2	42,275	23.1	*19,746*	*46.7*
Bank and post office deposits	5	0.0	12	0.0	*(7)*	*(59.5)*
Sundry financial investments	103,304	55.3	116,776	63.7	*(13,472)*	*(11.5)*
Reinsurance deposits	1,968	1.1	2,419	1.3	*(450)*	*(18.6)*
Total (a)	186,693	100.0	183,282	100.0	*3,411*	*1.9*
Losses on sale						
Land and buildings	3,621	0.9	28,923	12.1	*(25,302)*	*(87.5)*
Shares and holdings	34,806	8.7	103,374	43.3	*(68,568)*	*(66.3)*
Bonds	5,292	1.3	44,793	18.8	*(39,502)*	*(88.2)*
Sundry financial investments	349,672	87.1	29,078	12.2	*320,595*	*1,102.5*
Mutual investment fund units	8,160	2.0	32,599	13.7	*(24,439)*	*(75.0)*
Total (b)	401,550	100.0	238,767	100.0	*162,784*	*68.2*
Total (a+b)	588,243		422,048		*166,195*	*39.4*
Value adjustments to investments						
Land and buildings	71,035	42.6	61,325	10.4	*9,710*	*15.8*
Shares and holdings	24,474	14.7	143,094	24.2	*(118,620)*	*(82.9)*
Bonds	2,942	1.8	218,017	36.9	*(215,075)*	*(98.7)*
Sundry financial investments	7,714	4.6	12,954	2.2	*(5,240)*	*(40.5)*
Mutual investment fund units	60,708	36.4	156,085	26.4	*(95,377)*	*(61.1)*
Total (c)	166,873	100.0	591,476	100.0	*(424,602)*	*(71.8)*
TOTAL (a+b+c)	755,116		1,013,524		*(258,408)*	*(25.5)*
Charges investments of Class D						
Investment funds and market indices	11,759		58,430		*(46,670)*	*(79.9)*
Pension funds	83,740		160,098		*(76,359)*	*(47.7)*
Total Class D	95,499		218,528		*(123,029)*	*(56.3)*
GRAND TOTAL	850,615		1,232,052		*(381,437)*	*(31.0)*

Assets and financial charges, summarised in the table above, do not include the expenses for the management of investments, equal to €90,112k (€90,837k at 31/12/2018), because, as per regulation, these are classified in the item "expenses incurred" in the table "underwriting performance".

Charges on investments, which include, as an example, depreciation, accrued interest expense and any rate differential exchanged on derivative contracts, were €186,693k (€183,282k at 31/12/2018), while total realised capital losses on disposal were €401,550k (€238,767k at 31/12/2018).

Value adjustments were equal to €166,873k (€591,476k at 31/12/2018) and include €71,035k of adjustments on land and buildings, of which €7,714k related to impairments on real estate. A total of €14,613k related to group companies. There were value adjustments amounting to €2,446k for Villa Ragionieri, €1,626k relating to Ambra Property, €9,070k for Nuove Iniziative Toscane, €1,380k relating to UnipolSai Servizi Consortili, €47k for Ital H&R and €44k for Borsetto.

Overall, financial charges, including value adjustments to investments, with the exception of those related to the Class D, were therefore equal to €755,116k (€1,013,524k at 31/12/2018), while the charges on investments for the benefit of policyholders who bear the risk arising from pension fund management (Class D) was equal to €95,499k (€218,528k at 31/12/2018).

Investment in securitisations

At 31 December 2019, there were no investments in securitisations or the relative income and charges. A table with changes compared to 31 December 2018 is provided below:

Income and charges on investments in securitisations

Amounts in €k	2019	2018	Change on 2018
Financial income		3,858	(3,858)
(Financial charges)			
Financial income (charges)		3,858	(3,858)

A.4 Performance of other activities

We provide below a breakdown of other income and charges, which were not already included in Par. A.2 and A.3. above.

Other income

	FY	FY	Variation 2019/2018	
Amounts in €k	2019	2018	amount	%
Interest income	9,962	9,922	*40*	*0.4*
Other technical income	68,674	89,103	*(20,430)*	*(22.9)*
Recovery of expenses	60,527	68,126	*(7,600)*	*(11.2)*
Positive exchange rate differences	446		*446*	
Withdrawals from provisions	73,888	58,117	*15,770*	*27.1*
Commission on placement of bank products	5,683	6,938	*(1,255)*	*(18.1)*
Other income	9,111	7,998	*1,113*	*13.9*
Recovery of expenses for management of Roadway Accident Victims Fund (FVS)	9,559	9,579	*(20)*	*(0.2)*
Total other income	**237,849**	**249,784**	***(11,935)***	***(4.8)***
Gains on trading of other assets	1	4	*(3)*	*(71.0)*
Other extraordinary income	196	289	*(92)*	*(31.9)*
Extraordinary gains	36,812	39,223	*(2,411)*	*(6.1)*
Total extraordinary income	**37,010**	**39,516**	***(2,506)***	***(6.3)***

At 31 December 2019, the item "Total other income" was equal to €237,849k (€249,784k at 31/12/2018) and included:

- other technical income for €68,674k (€89,103k at 31/12/2018), comprised primarily, for €13,040k (€31,360k in 2018) of commissions on premiums of previous years cancelled and €28,890k (€24,003k in 2018) for commissions for investments relating to benefits linked to investment funds and market indices and investments arising from pension fund management. Among the items of indirect business, we note €10,168k (€9,786k in 2018, in reinstated premiums envisaged contractually in renegotiation treaties and estimated on the basis of the claims provision at 31 December 2019;
- recovery of expenses from services provided to the other Group companies for €60,527k (€68,126k at 31/12/2018);
- withdrawals from provisions refer, for €35,485k, to the bad debt provision, of which €26,117k for liabilities set aside in previous years and occurred in the current year and, €9,368k, for excesses, and €38,403k to bad debt provisions of which €32,480k relating to losses recorded in the period and €5,923k to excesses;

Extraordinary income was €37,010k (€39,516k at 31/12/2018), mainly consisting of contingent assets for €36,812k compared to €39,223k in 2018. These included income of €25,973k relating to taxes of previous years.

Other charges

Amounts in €k	FY 2019	FY 2018	Variation 2019/2018 amount	%
Amortisation on goodwill and other intangible assets	112,393	116,956	*(4,563)*	*(3.9)*
Expenses for managing claims of Roadway Accident Victims Fund	8,971	9,717	*(746)*	*(7.7)*
Impairment losses on receivables	37,679	12,893	*24,787*	*192.3*
Interest expense	88,170	87,238	*932*	*1.1*
Other technical charges	97,779	103,463	*(5,684)*	*(5.5)*
Allocations to provisions	39,433	48,229	*(8,796)*	*(18.2)*
IVASS penalties	353	845	*(492)*	*(58.2)*
Negative exchange rate differences	3,712	2,604	*1,108*	*42.6*
Sundry taxes	2,182	2,195	*(13)*	*(0.6)*
Charges on behalf of third parties	39,414	39,461	*(47)*	*(0.1)*
Sundry charges	40,687	13,148	*27,539*	*209.5*
Total other charges	**470,774**	**436,748**	***34,026***	***7.8***
Extraordinary losses	13,728	4,703	*9,025*	*191.9*
Settlements	200	1,218	*(1,018)*	*(83.6)*
Other charges	100,377	475	*99,902*	*21,032.9*
Losses on disposals of other assets	1	1		*(11.9)*
Total extraordinary losses	**114,306**	**6,397**	***107,909***	***1,687.0***
Current taxes	236,474	114,134	*122,340*	*107.2*
Deferred tax assets and liabilities	17,064	21,787	*(4,723)*	*(21.7)*
Total taxes charges	**253,538**	**135,921**	***117,617***	***86.5***

The item "Total other charges" was €470,774k (€436,748k at 31/12/2018) and mainly consisted of:

a. amortisation of goodwill and other intangible assets for €112,393k (€116,956k at 31/12/2018), which relates to intangible assets for €57,322k and goodwill and insurance portfolios acquired in previous years for €55,071k;
b. interest expense, for €88,170k (€87,238k at 31/12/2018), which mainly includes interest on subordinated loans of €82,959k (€83,068k in 2018);
c. other technical charges, equal to €97,779k (€103,463k at 31/12/2018), comprised, in particular, of €77,628k in premium cancellations. Among the items of premiums ceded, charges for reinstated premiums envisaged contractually in treaties and estimated on the basis of claims provisions at the end of the period were €6,099k;
d. allocations to provisions relate, for €18,105k, to the bad debt provisions and, for €21,328k, to provisions for risks and charges;
e. charges on behalf of third parties, equal to €39,414k (€39,461k at 31/12/2018), including costs and other administrative charges for seconded personnel at other companies.

Total extraordinary expenses came to €114,306k (€6,397k at 31/12/2018) and mainly consisted of allocations to the personnel solidarity and employee leaving provision totalling €95,500k and contingent liabilities relating to taxes of previous years, equal to €9,525k (€394k at 31/12/2018).

Current tax charges were €253,538k (€135,921k at 31/12/2018), of which €227,117k for current IRES and IRAP, €2,485k for substitute taxes under Art. 1, Par. 137-140 of Law No. 296/2006 in addition to the net balance of deferred tax assets and liabilities, equal to €17,064k.

A.5 Any other information

With regard to operating performance subsequent to the end of 2019, the first part of 2020 was characterised by negative repercussions on growth of the global economy generated for the most part by the worldwide extension of the COVID-19 (Coronavirus) epidemic. The infection from Coronavirus, recently qualified as a pandemic by the World Health Organisation, indeed led to precautionary measures being adopted in China, which were then extended to many other countries, including Italy, to combat the spread of the epidemic. The size of the pandemic, in terms of temporal duration and extension, is currently difficult to estimate, and it is likewise difficult to reliably quantify the negative repercussions that it will have on the global economic cycle. As regards our country, GDP figures below expectations were recorded in the fourth quarter of 2019, confirming the vulnerability of Italy's economy in a context of weak growth in the international economy, and the spread as of the end of February of the health emergency situation led many observers to a considerable downwards review of the 2020 growth forecasts, previously expected to be around +0.5% and now estimated by many in negative growth.

The financial markets have been strongly volatile due to worries that the measures launched in many countries, including Italy, with the aim of combating the spread of the pandemic, will halt the global economy. Indeed, this public health emergency is unleashing highly negative trends in the stock indexes at the end of February 2020, along with an increase in the spread between Italian government bonds and the German Bund. All this may reflect on the Company's financial investments and on the financial management, which continues to be aimed at the consistency of assets and liabilities, with a view to maintaining a proper risk return profile of the portfolio and pursuing selectively an adequate diversification of the risks.

With regard to the trends of the insurance business, starting from the last week of February, due to the increasingly stringent government provisions on the movement of people, there has been a reduction in the signing of new contracts and, with reference to the Non-Life classes, a reduction in claims as well.

Excluding currently unforeseeable events and lasting and significant impacts of the ongoing health emergency on the economic cycle as well as the financial markets, the Company expects to close 2020 with a positive result, in line with the objectives defined in the Business Plan, and with an adequate solvency situation.

With particular reference to the solvency situation, it should be noted that, even in the current context, characterized by a strongly negative trend of the financial markets, on the basis of the periodic monitoring carried out internally, even close to the date of approval of this report, the Company continues to meet the capital adequacy requirements envisaged by the regulations.

B

SYSTEM OF GOVERNANCE

B.1 General information on the system of governance[3]

B.1.1 Tasks and responsibilities of Board of Directors

In compliance with IVASS Regulation no. 38 of 3 July 2018 ("Regulation 38"), UnipolSai, on the basis of the self-assessment process pursuant to the IVASS Letter to the Market of 5 July 2018, has adopted a "reinforced" type corporate governance system, deemed most suited for the sound and prudent management of the Company.

Note that the Company has adopted the corporate governance mechanisms contained in the Governance Code of listed companies promoted by Borsa Italiana S.p.A. ("Corporate Governance Code") and inspired more generally by international best practices, already compliant with the requirements of the above-mentioned regulation for companies with a "reinforced" type corporate governance system.

The governance structure of the Company is based on a traditional management and control model, where the main bodies are the Shareholders' Meeting, the Board of Directors (which operates with the support of board committees) and the Board of Statutory Auditors.

Shareholders' Meeting
The Shareholders' Meeting is the body that expresses the will of the company; the resolutions taken in compliance with the law and the By-Laws are binding for all Shareholders, even if absent or dissenting.
Aside from the duties and attributions set forth in the By-laws and regulatory provisions, the Ordinary Shareholders' Meeting of UnipolSai also establishes the remuneration due to the members of the bodies that it appoints and approves, inter alia, the remuneration policies for the corporate bodies and the most significant personnel, as identified by the company pursuant to Article 2, paragraph 1, letter m) of Regulation 38, including remuneration plans based on financial instruments, in compliance with the Group's remuneration policies.

Board of Directors
The By-Laws give the management of the Company to a Board of Directors, with no less than 9 and no more than 19 members, appointed by the Shareholders' Meeting, which sets their number, and they must meet the requirements of suitability for office set out in the applicable legal and regulatory provisions.
Directors are in office for three years, or for the shorter period set by the Shareholders' Meeting at the time of their appointment, and may be re-elected.
The Ordinary Shareholders' Meeting of 17 April 2019 has, most recently, appointed the Board of Directors, consisting of 18 members, giving them a mandate of three years and, therefore, up to the Meeting called to approve the 2021 financial statements.
The Board of Directors is vested with the broadest powers for the ordinary and extraordinary management of the Company. Therefore, it can carry out all deeds, including disposals, that it deems appropriate to achieve the corporate purpose, excluding only those that the law expressly places under the responsibility of the Shareholders' Meeting.
In line with the principle of centrality of the Board, according to Art. 17 of the By-Laws, the Board of Directors resolves, as well as on the issue of non-convertible bonds, on:

i. the merger, in the cases considered by Art. 2505 and 2505-bis of the Civil Code, also as referred to, for spin-offs, by Art. 2506-ter of the Civil Code;
ii. the opening or closing of secondary offices;
iii. the indication of which Director - in addition to the Chairman, the Deputy Chairman (Chairmen) and the General Managers - and which Executive of the Company has the power to represent the Company, pursuant to Art. 21 of the By-Laws;
iv. the capital reductions in the case of withdrawal of a Shareholder;
v. the amendments to the By-Laws to bring them in line with legal provisions;
vi. the transfer of the registered office within Italy.

[3] The information contained in this chapter acknowledges, where possible, the changes introduced by IVASS Regulation no. 38/2018 regarding the system of corporate governance, specifying that the adjustment into line with the provisions of the aforementioned regulatory system will take place in observance of the terms provided for therein.

Pursuant to the law, the By-Laws and the internal policies in force, the Board of Directors, among other things:

a. examines and approves the strategic, financial and business plans of the Company, including consolidated, regularly monitoring their implementation;
b. defines the corporate governance system and the corporate structure, in line with the Group's governance models and guidelines, reviewing them at least once per year and ensuring that they are constantly complete, functional and effective, also with reference to outsourced activities.
   In this regard, it defines:
   i. the tasks, responsibilities and functioning methods of the corporate bodies, the board committees and the Key Functions (the Audit, Risk Management, Compliance and Actuarial Functions);
   ii. the reporting activities, including their timing, between these Functions and the board committees and between them and the corporate bodies, as well as
   iii. the co-ordination and co-operation activities, in the case of potential overlapping of the areas or to realise synergies;
   iv. the nature and the level of risk compatible with the strategic objectives of the Company and its subsidiaries, including in its assessments all risks that may be relevant in terms of medium-long term sustainability;
c. approves the organisational, administrative and accounting structure of the Company, particularly with reference to the internal control and risk management system;
d. defines and reviews the policies applicable to the Company, ensuring that those relating to the corporate governance system are consistent with each other, with the business strategy and with Group policies;
e. appoints one or more Directors responsible for the internal control and risk management system;
f. after hearing the opinion of the Control and Risk Committee:
   i. sets the guidelines of the internal control and risk management system, so that the main risks to which the Company and its subsidiaries are exposed are correctly identified and appropriately measured, managed and monitored, also checking the compatibility of these risks with a management of the company in line with the strategic objectives identified;
   ii. at least once a year, assesses the current and forward-looking adequacy of the internal control and risk management system with respect to the characteristics of the Company and its subsidiaries and the risk appetite specified, as well as its effectiveness and ability to identify the trends of corporate risks and their interaction;
   iii. at least once a year, approves the action plan prepared by the managers of the Key Functions, after consulting the Board of Statutory Auditors and the Director in charge of the internal control system;
   iv. at least once a year, approves the scheduled activity plan and the report of the Manager of the Anti-Money Laundering Function on the activities carried out;
   v. after consulting the Board of Statutory Auditors, reviews the comments made by the audit firm in its letter of suggestions and in the report on the key questions identified during the audit;
g. checks that the corporate governance system is consistent with the strategic objectives, risk appetite and risk tolerance limits established and is capable of capturing the evolution of company risks and their interactions;
h. orders periodic assessments on the effectiveness and adequacy of the corporate governance system and requests timely information on the most significant issues and gives timely instructions for the adoption of corrective measures, of which later it assesses the effectiveness;
i. sets the risk targets system defining, also on the basis of an internal assessment of risk and solvency, the risk appetite of UnipolSai in line with its overall solvency requirements, identifying the types of risk it believes it can assume and setting accordingly the risk tolerance levels, which are revised at least once a year, to ensure their effectiveness over time;
j. appoints, replaces and revokes, on proposal of the Director in charge of the internal control system - with the favourable opinion of the Control and Risk Committee, as well as after consulting the Board of Statutory Auditors - the Managers of the Key Functions, in observance of the requirements of suitability for office established in the Policy for the evaluation of fulfilment of the requirements in terms of suitability for office ("Fit&Proper Policy"), guaranteeing that they have adequate resources to fulfil their responsibilities, and sets their remuneration in line with the remuneration policies adopted by the Company;
k. appoints, replaces and removes the Manager of the Anti-Money Laundering Function;
l. establishes internal committees to make suggestions and provide advice, as required by legislation and regulations in force over time, as well as those appropriate or necessary to the good operation and growth of UnipolSai, ensuring that there is a suitable and constant interaction between them, the Top Management and the Key Functions;
m. on an annual basis, defines and reviews the remuneration policies, submitting them to the Ordinary Shareholders' Meeting for approval, and is responsible for their proper application;

n. appoints and revokes the members of the Supervisory Board (Organismo di Vigilanza) pursuant to Legislative Decree 231/2001 (defined herein); sets, with the assistance of the Remuneration Committee, the remuneration of said members; approves, once a year and on proposal of the Supervisory Board, the budget of expenses, ordinary and extraordinary, needed to carry out the supervision and control provided for by the Organisational, Management and Control Model (defined herein), as well as the final figures of the expenses of the previous year;
o. assesses the general management of the business, taking into account, in particular, the information received from the delegated bodies, as well as comparing, regularly, the results achieved with those planned;
p. carries out, at least once a year, with the assistance of the Appointments and Corporate Governance Committee, an evaluation on the size, composition and effective operation of the Board of Directors and its Committees, as well as on their size and composition, also taking into account elements such as professional characteristics, experience, also of management, and gender of its members, as well as their seniority in office;
q. keeping into account the results of the Board Performance Evaluation, before the appointment of a new Board, gives to the Shareholders directions on the professional and managerial roles the presence of which is believed to be appropriate on the Board;
r. approves, monitoring its suitability over time, the system of the delegation of powers and responsibilities of the Company, taking care to avoid an excessive concentration of powers in a single body and implementing controls on the exercise of the delegated powers, with the power of defining appropriate emergency plans ("contingency arrangements") if the board itself decides to take upon itself the delegated powers;
s. resolves with respect to transactions that have significant strategic, economic, capital or financial relevance for the Company, paying particular attention to situations in which one or more Directors have an interest on their own behalf or on behalf of third parties. To that end, it establishes general criteria to identify transactions of significant relevance and adopts suitable measures to ensure that the subsidiaries submit transactions that are relevant to the Company's Board of Directors for prior review;
t. passes resolutions on transactions with intra-group counterparties as well as - with the assistance, when required, of the Related Party Transactions Committee - with regard to transactions with related parties, in compliance with the reference regulations adopted respectively by IVASS and Consob and internal regulations in force over time.

Additional powers are reserved to the Board of Directors pursuant to (i) the policies adopted by the Company on, among other things, insurance underwriting and provisioning, investments and divestments in financial, real estate and equity assets, management of funding and credit sources and (ii) the system of the delegations of powers granted to the General Manager. These provisions aim at ensuring that the Board of Directors reviews and resolves on the transactions with a significant strategic relevance and significant amount.

Consistently with the recommendations of the Corporate Governance Code - and in particular with Art. 7 of this Code, which provides for the Board of Directors to carry out "*a role of direction and evaluation of the suitability of the system*" and to "*identify among its members one or more directors, to set up and manage an effective internal control and risk management system*" - the Board of Directors, most recently in the Board meeting held on 17 April 2019, has appointed as Director in charge of the internal control system - because of his in-depth knowledge of the corporate processes and the internal control and risk management system within the Unipol Group – its Chairman, Mr Carlo Cimbri.

Pursuant to Art. 15 of the By-Laws, the Board of Directors meets at least once a quarter and every time the Chairman, or his substitute, believes it to be appropriate, or when a request in this sense is made by at least three Directors. The Board of Directors may also be called, after notification to the Chairman, by at least one Statutory Auditor.

Resolutions are taken with the absolute majority of those attending, unless otherwise provided by law, and, in the case of parity, the chair of the meeting has the casting vote.

On 9 May 2019, the Board of Directors verified the legal requirements of the newly appointed directors, as well as of the members of the Board of Statutory Auditors pursuant to the Fit&Proper Policy in force adopted by the Company's Board of Directors on 14 March 2019.

Board Committees

To increase the efficiency and the effectiveness of its activity, the Board of Directors has set up among its members specific Committees, with the power to provide opinions and make proposals, specifying their tasks also taking into account the criteria set in the Corporate Governance Code.

In particular, on 17 April 2019, the Board of Directors approved the establishment of the following board committees, which play a role in the corporate governance system and perform their duties in compliance with the provisions of the Corporate Governance Code and applicable supervisory provisions and in line with the functions performed at individual level by the same committees of the Parent Company:

- Appointments and Corporate Governance Committee;
- Remuneration Committee;
- Control and Risk Committee;
- Related Party Transactions Committee.

The members of each Committee were appointed by the Board of Directors and chosen among the members of the latter. These Committees are composed at least of a majority of Independent Directors. The Committees are dissolved when the entire Board of Directors reaches the end of its mandate; if one or more members become unavailable, for any reason, the Board shall find a replacement.

In this regard:

- the Appointments and Corporate Governance Committee consists of three Directors, all non-executive and independent. During 2019 this Committee met 3 times. The Appointments and Corporate Governance Committee has a role of proposal and advice in the identification of the optimal composition of the Board of Directors and in the definition of the corporate system of governance; in this regard, said Committee has been given the following functions:
  - to propose to the Board of Directors the candidates to the office of Director in the cases of co-optation, if it is necessary to replace independent Directors;
  - to define schedule and procedures for the execution of the Board Performance Evaluation;
  - to inform the Board of Directors on regulatory developments and on the best corporate governance practices;
  - to express opinions to the Board of Directors, on:
    - the appointment of the members of the Board Committees of the Company;
    - the appointment of the General Manager and the Deputy General Manager of the Company;
    - the implementation of the Company's system of governance;
    - the size and composition of the Board of Directors, making recommendations on the professional qualifications the presence of which within the Board of Directors is believed to be appropriate, as well as on the maximum number of offices and derogations from no-competition rules;

a. the Remuneration Committee consists of three Directors, all non-executive and independent. During 2019 this Committee met 3 times. The Remuneration Committee is assigned the following remuneration functions:
   a. it provides advice and proposals in the definition of remuneration policies for the corporate bodies and significant personnel, as identified in compliance with applicable sector regulations ("Significant Personnel"), including compensation plans based on financial instruments;
   b. it makes proposals to the Board of Directors for the remuneration of the Chief Executive Officer and the other Directors holding special offices, as well as for the performance targets to be set for the variable component of this remuneration, in line with the Remuneration Policies adopted by the Board of Directors;
   c. periodically assesses the remuneration policies to ensure their adequacy, overall consistency and concrete application by the Company;
   d. identifies potential conflicts of interest and the measures adopted to manage them;
   e. ascertains the fulfilment of conditions for the payment of incentives to Significant Personnel;
   f. provides adequate disclosure to the Board of Directors on the effective functioning of the Remuneration Policies;
   g. expresses opinions to the Board of Directors on the remuneration of the members of the Supervisory Board of the Company pursuant to Legislative Decree 231/2001.

b. the Control and Risk Committee consists of three Directors, all non-executive and independent, and one of which with adequate experience in accounting and financial issues or risk management. During 2019 this Committee met 10 times. The Control and Risk Committee plays a propositional, advisory, investigative and support role to the Board of Directors in relation to the Board's assessments and decisions mainly concerning the internal control and risk management system as well as the approval of periodic financial reports.
With regard to the performance of these functions, pursuant to the Committee Regulation as well as policies in force, the Control and Risk Committee provides its prior opinion to the Board of Directors:
- on the definition of the guidelines of the internal control and risk management system, so that the main risks for the Company and its subsidiaries may be correctly identified, as well as appropriately measured, managed and monitored, assessing also the compatibility of these risks with a management of the company in line with the strategic objectives identified;
- on the assessment, at least on an annual basis, of the current and future adequacy of the internal control and risk management system with respect to the characteristics of the Company and its subsidiaries and to the risk appetite and risk tolerance limits set, as well as the effectiveness of such system and its ability to ability to identify the trends of corporate risks and their interaction.

Particularly with regard to the internal control system, the Control and Risk Committee performs, for example but not limited to, the following duties:
- assists the Board of Directors in carrying out the duties attributed to it by legislative and regulatory provisions and by the Corporate Governance Code with regard to the internal control system;
- assesses, together with the Manager in charge of financial reporting, after consulting the audit firm and the Board of Statutory Auditors, the correct use of the accounting principles and, with reference to the drafting of the consolidated financial statements and the consolidated half-year report, their homogeneity at the Group level;
- reviews the processes for the formation of periodic accounting documents prepared by the Company and its subsidiaries in order to draw up the separate and consolidated financial statements;
- after consulting the Board of Statutory Auditors, reviews the comments made by the audit firm in its letter of suggestions and in the report on the key questions identified during the audit;
- supports the Board of Directors in defining and evaluating the adequacy of the Company's organisational structure, also with regard to the outsourcing of essential or important functions or activities and receives the relative reporting.

Specifically with regard to risk management, the Control and Risk Committee performs, for example but not limited to, the following duties:
- assists the Board of Directors in carrying out the duties attributed to it by legislative and regulatory provisions and by the Corporate Governance Code with regard to the risk management system;
- provides its opinion to the Board of Directors on proposals regarding the appointment and/or removal of Managers of the Key Functions, on the adequacy of the resources assigned to such functions for the performance of the respective duties, as well as on the consistency of the remuneration assigned to the above-mentioned Managers with applicable company policies; such opinion is binding for proposals relating to the Audit Function;
- assists the Board of Directors and provides its opinion on the determination of the risk appetite and the establishment of risk tolerance limits, as defined in the Risk Appetite Framework;
- assists the Board of Directors and expresses an opinion on the current and forward-looking risk assessment, taking into account the criteria used for the assessment of the main company risks, as well as on specific aspects concerning their identification with reference to the Company;
- asks, if appropriate, the Audit Function to carry out assessments on specific operational areas, giving contextual notification to the Chairman of the Board of Directors, also in his capacity as the Director responsible for supervising the functioning of the internal control and risk management system, to the Chairman of the Board of Statutory Auditors and to the General Manager;
- supports, with appropriate investigation activity, the assessments and the decisions of the Board of Directors on the management of risks arising from detrimental events of which the Board of Directors has become aware.

In relation to topics shared across the internal control and risk management system, the Control and Risk Committee, for example but not limited to:
- at least once a year, expresses an opinion on the action plan prepared by the Managers of the Key Functions relating to UnipolSai and its subsidiaries;

- reviews the regular reports on the evaluation of the internal control and risk management system of the Company and its subsidiaries and those of special relevance prepared by the Key Functions;
- monitors the independence, suitability, effectiveness and efficiency of the Key Functions;
- expresses an opinion on the adoption and revision of company and Group policies as required by the Solvency II regulation and/or in any event relating to the internal control and risk management system;
- expresses its opinion on the description, in the annual report on corporate governance, of the main characteristics of the internal control and risk management system and the procedures of co-ordination between the parties involved, as well as the assessment of its suitability.

a. the <u>Related Party Transactions Committee</u> consists of four Directors, all non-executive and independent. During 2019 this Committee met 9 times. The Related Party Transactions Committee has functions of advice, dialogue, and proposal towards the Board of Directors and the units of UnipolSai and the Subsidiaries on Transactions with Related Parties, in compliance with the provisions of the Regulation issued by CONSOB with Resolution No. 17221 of 12 March 2010 and subsequent amendments and the internal procedure adopted by the Board of UnipolSai for the execution of the Transactions with Related Parties ("Related Party Procedure"). In particular, the Committee:
   - expresses to the Board of Directors of the Company an opinion on the procedures to create and maintain the register in which Related Parties are recorded ("Register of Related Parties");
   - takes part in the investigation and any negotiation concerning the Transactions of Greater Relevance (as specified in the Related Party Procedure);
   - expresses a reasoned opinion to the decision-making body, on the basis of timely and complete information provided by the company's units during the investigation and, if appropriate, the negotiation, on the interest of the Company to the execution of the Transactions of Greater Relevance, as well as on the convenience and fairness of the corresponding terms;
   - expresses to the decision-making body a reasoned non-binding opinion on the interest of the Company to the execution of the Transactions of Lesser Relevance (as specified in the Related Party Procedure), as well as on the convenience and fairness of the corresponding terms;
   - expresses to the General Manager of UnipolSai a reasoned non-binding opinion on the interest of the Subsidiaries and UnipolSai in the execution of Transactions with Related Parties carried out through the Subsidiaries, of Greater or Lesser Relevance, as well as on the convenience and fairness of the corresponding terms;
   - expresses to the Board of Directors an opinion on the updates of the Related Party Procedure.

<u>Delegated bodies</u>
We note that the Board of Directors of the Company has agreed on the need to carry out a review of the governance structure and resolved:

a. not to appoint an Executive Committee and a Chief Executive Officer, believing that these appointments are currently not necessary;
b. to appoint a General Manager, with appropriate functions and powers, in charge of the operating management of the Company.

The General Manager was given by the Board of Directors the following functions:

- to ensure the execution of the resolutions of the Board of Directors and the Shareholders' Meeting of the Company;
- to ensure the ordinary management of the business of the Company, as well as the governance, supervision and co-ordination of all corporate activities;
- to promote the corporate policies of the Company;
- to propose to the Chairman of the Board of Directors the plan for the activities of the Board of Directors;
- to make the proposals on the multi-year plans and annual budget of the Company, to be submitted to the review and approval of the Board of Directors;
- to give directions for the preparation of the financial statements of the Company; to prepare the proposals on the draft financial statements and consolidated financial statements, as well as on the interim financial reports, to be submitted to the Board of Directors;
- to support the Director in charge of the internal control system in the performance of his functions, also by:
   - ensuring continued operability and overall suitability of the organisation structure and the internal controls and risk management system;

- defining in detail the organisation structure of the Company, the tasks and the responsibilities of the operational units and their personnel, as well as the corresponding decision-making processes, in line with the guidelines given by the Board of Directors; in this context, ensuring a suitable separation of tasks both between individual parties and between functions, to avoid, as much as possible, conflicts of interest;
- implementing the policies of valuation, also forward-looking, and risk management set by the Board of Directors, ensuring the definition of operational limits and the timely verification of these limits, as well as the monitoring of the risk exposures and the compliance with risk tolerance levels;
- carrying out, on the basis of the strategic objectives and in line with the risk management policy, the policies of underwriting, provisioning, re-insurance, of other techniques of mitigation of the risk and management Operational Risk, as well as the other policies and guidelines specified by the Board of Directors; supporting the Director in charge of the internal control system to implement the directions of the Board of Directors on the measures needed to correct the anomalies observed and/or make improvements.

The Board of Directors has also granted to the General Manager special executive powers, defining procedures and quantitative limits for their exercise.

Board of Statutory Auditors

The Shareholders' Meeting of 23 April 2018 appointed the Board of Statutory Auditors currently in office, consisting of three Statutory auditors and three Alternate Auditors, giving them a mandate of three years and, therefore, up to the Meeting called to approve the 2020 financial statements.

Pursuant to Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016, on the audit of the annual and consolidated financial statements, the Board of Statutory Auditors of the Company, as well as monitoring the compliance with the law and the By-Laws and with the principles of proper management, is in charge, also in the execution of its functions as internal control and audit committee, of:

a. informing the Board of Directors of the Company of the result of the audit;
b. monitoring the process of financial reporting and submitting recommendations or proposals aimed at ensuring its integrity;
c. monitoring the effectiveness of the systems of internal control of the quality and risk management of the company and the internal audit, with regard to the financial reporting of the Company;
d. monitoring the audit of the accounts;
e. verifying and monitoring the independence of the audit company, in particular reviewing the services other than audit services provided to the Company by this audit company and the entities that belong to its network;
f. making proposals on the audit appointment to be submitted to the Shareholders' Meeting, at the end of the selection procedure of the audit company. The Board of Statutory Auditors is also responsible for the fairness of this procedure.

Supervisory Board

Legislative Decree no. 231 of 8 June 2001, "Discipline of the administrative responsibility of legal persons, companies and associations even without legal personality" ("Decree 231/2001") - which introduced the administrative liability of entities as a result of certain offences committed in the interest or for the advantage of the entity by directors, managers, employees and company representatives - establishes in Art. 6 an exemption from above-mentioned liability for entities that demonstrate: (i) that before the offence was committed, they adopted and effectively implemented organisation, management and control models suitable to prevent the occurrence of the offences considered therein; (ii) that they have established an internal control body with the task of supervising the functioning and observance of the model (the "Body" or the "SB") as well as its actual effectiveness and adequacy and, when necessary, managing any updates of the model; (iii) that the offence was committed by fraudulently circumventing the model, and (iv) that the above-mentioned Body did not fail to supervise or enact insufficient supervision.

In compliance with the above regulations, the Company adopted the Organisation, Management and Control Model (the "MOG" or the "Model") and established and appointed the SB pursuant to Art. 6, letter b) of Decree 231/2001.

The Body is assigned the task of supervising:

g. the effective observance of the Model by its addressees: employees, corporate bodies and, within the limits laid out therein, agents, associates and suppliers;
h. the actual effectiveness and adequacy of the Model with respect to the structure of the company and its real capacity for preventing the commission of the offences pursuant to Decree 231/2001;
i. the possibility of updating the Model, when it is found that it needs to be adjusted in light of changed company and/or regulatory conditions, contacting the competent bodies for this purpose.

The SB is also given the right to conduct targeted verifications, even without providing prior notice, on specific transactions or deeds entered into by the Company, especially as regards sensitive activities, the results of which need to be summarised in reporting to the competent corporate bodies.

These powers are to be exercised within the limits of what is strictly functional to the mission of the SB, which has no management powers whatsoever.

Company committees

In the context of the governance and the internal control and risk management system, a few internal committees have been established by the Board of Directors, or by the General Manager, mainly consisting of the Heads of the Joint Local Departments of UnipolSai, with functions of support to the General Manager in the implementation and supervision of the policies of direction, coordination and operational strategy specified by the Board of Directors.

B.1.2 Transactions with related parties

The substantial transactions performed during the reference period with shareholders, people with significant influence over the company and with the members of the administrative or supervision body are described below.

In the reference period, the Company has maintained with the Parent Company ordinary relations deriving from its choice of a tax consolidation regime and those relating to the provision of some operational services, including the management of the financial portfolio; these relationships are governed under normal arm's length conditions. In addition, effective from 1 January 2019, UnipolSai subscribed to the Unipol Group VAT system.

On 7 February 2019, the Board of Directors of the Company resolved to exercise the sale option relating to 27.49% of the share capital of Unipol Banca S.p.A. ("Unipol Banca") and UnipolReC S.p.A. ("UnipolReC"), available to it vis-à-vis the parent company Unipol based on the option contract signed on 31 December 2013, between the then Fondiaria-Sai S.p.A. and Unipol. On 14 February 2019, UnipolSai notified Unipol of its exercise of the option right. The transfer of the shares was completed on 1 March 2019 against payment by Unipol of a total consideration of €579.1m, calculated on the basis of the option contract. After the exercise of the put option, the direct investment held by UnipolSai in Unipol Banca and in UnipolReC stood at 14.76% of the respective share capital and the corresponding shares of these companies held by Unipol increased to 85.24%. The equity investments held by UnipolSai and by Unipol in Unipol Banca were subsequently sold to BPER Banca S.p.A., and with this last transaction, the Unipol Group completed the process of requalification of its strategy in the banking sector, by exiting from the direct business of a medium sized bank, in order to take on the role of major investor of one of the main Italian banking groups.

On 31 December 2019, there were €567.8m in loans to Unipol, specifically:

i. two loans for a total of €267.8m, granted in 2009, as part of the subrogation of Unipol Assicurazioni S.p.A. - later incorporated into UnipolSai - in the role of issuer of two bond issues "Unipol 7%", maturing in 2021, and "Unipol 5,66%", maturing in 2023, originally issued by the Parent Company, with a total repayment value of €561.7m at the same date. Against said transaction, Unipol has issued, in the interest of UnipolSai, guarantees of equal amount in favour of the subscribers of the relative bonds;
ii. a loan for a total of €300m granted by UnipolSai on 1 March 2019, indexed to the 3M Euribor plus a spread of 260 basis points, with bullet repayment at 5 years (with the possibility of full or partial early repayment), and the payment of interest on a quarterly deferred basis, as part of the above-mentioned sale to Unipol of the equity investment held in Unipol Banca after the exercise of the put option.

Lastly, in the context of the allocation of 2018 profits, UnipolSai paid to its shareholders Unipol, Unipol Finance S.r.l., Unipol Investment S.p.A. and Unipolpart I S.p.A. dividends respectively for €209.32m, €41.00m, €41.02m and €34.00m.

The relations with the members of the administrative or supervision body refer to the remuneration paid in compliance with the resolutions of the Shareholders and/or the Board adopted and compliant with current Group remuneration policies. At 31 December 2019, to implement the programme for the purchase of shares of the holding company Unipol, in the service of compensation plans based on financial instruments (performance share type), intended for the managers of the Company, it holds 540,221 Unipol shares.

B.1.3 Tasks and responsibilities of key functions

The following Key Functions have been established at the Company:
- Audit, which is responsible for assessing and monitoring the effectiveness, efficiency and adequacy of the internal control system and the additional corporate governance components, as well as any need for updating, also through support and advisory activities provided to other company departments;
- The Risk Management Function, which is in charge of identifying, measuring, assessing and monitoring the current and prospective risks at the individual and aggregated level to which the Company is or may be exposed and their correlation;
- The Compliance Function, which is responsible for evaluating the suitability of procedures, processes, policies and internal organisation according to a risk-based approach; its objective is to prevent compliance risk, considered as the risk of judicial or administrative sanctions, incurring losses or reputational damages as a result of failure to observe laws, regulations and directly applicable European regulations or measures of the Supervisory Authority or internal regulations such as by-laws, codes of conduct or corporate governance codes; risk deriving from unfavourable amendments in the regulatory framework or case law decisions;
- Actuarial Function[4], whose main task is to coordinate the calculation of the technical provisions, assess the adequacy of the methodologies, models and assumptions forming the basis of said calculation and evaluating the quality of the data used. It expresses a judgment on the global policy for the underwriting of risks and the adequacy of reinsurance agreements; it also provides a contribution to the risk management system, also with reference to the modelling underlying the calculation of the capital requirement[5].

Within the Internal Control and Risk Management System, it is essential to ensure the dialogue between the Key Functions, and regular reporting between these functions and the Corporate Bodies.
The Board of Statutory Auditors, the audit firm, the Key Functions, the Supervisory Board pursuant to Legislative Decree 231/2001 and any other body and function that has been given specific control tasks exchange all information useful for the execution of the tasks assigned. To this purpose, appropriate reporting is required on the activities carried out and the risk exposure, both to the corporate bodies and the Top Management, and within the board and corporate committees, ensuring the involvement and the dialogue of all functions.
Within this system, the Compliance, Risk Management and Audit functions work together, albeit with their own autonomy, using a joint methodology and a shared IT system, which make it possible to share the information produced and adopt a uniform approach in the description of processes, the assessment of operational risks and the evaluation of the internal control and risk management system. In particular, reciprocal information flows between the different Key Functions are already in place through:
- participation in the meetings of the Control and Risk Committee and the SB;
- information and discussion on the annual plans of the activities of the Functions themselves;
- joint working groups for the maintenance and continuous updating of a shared methodology for presenting the results of the activities performed to the top management and the corporate bodies;
- reporting activities with exchange of the documentation produced by the individual functions (as for example the results of the assessment activities carried out, the cases of non-compliance, the regular claim reports, etc.).

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4 The Actuarial Function is exercised by an actuary listed in the professional register set up by Law No. 194, 9 February 1942, or by parties with knowledge of actuarial and financial mathematics appropriate to the nature, magnitude and complexity of the risks intrinsic to the business activities of the company and with proven professional experience in the issues relevant to the execution of the task.

5 The Actuarial Function directly reports to the Board of Directors and has been given the necessary independence and separation in the performance of its tasks to avoid conflicts of interest with the Group divisions in charge of the technical and operational management. Any potential conflict of interest is addressed by an appropriate diversification and separation of the tasks within the Actuarial Function itself. In particular, within UnipolSai, the "Actuarial Function – Validation", with areas of competence both for the Non-Life and Life business, and the "Actuarial Function – Calculation" office, which carries out the calculation of the Solvency II technical provisions for the Non-Life business of UnipolSai, report to the manager of the Actuarial Function.

Once a year, the Key Functions present to the Board of Directors their action plan and every six months they report to the Board of Directors on the activities carried out and the main issues observed, as well as on any initiative proposed. Moreover, in the execution of their power to provide opinions and make proposals on the Internal Control and Risk Management System, the aforementioned functions provide the Control and Risk Committee and the Board of Statutory Auditors with the action plan and regular reports on their activities.

To execute the activities within its area of competence, the personnel of the Key Functions has unlimited access to company data and relevant information.

The Key Functions of UnipolSai carry out the activities within their area of competence both for UnipolSai and for the Companies that outsource to the latter these functions, as set forth in the Group's organisational model described in par. B.4.

B.1.4 Remuneration policies

The primary objective of the remuneration policies is to guarantee a fair remuneration, according to the position, responsibilities, professionalism level and individual skillset. In compliance with legal and regulatory provisions, the remuneration policies of the Company ensure the consistency between remuneration and the need to guarantee sustainable performance, in compliance with a sound and prudent risk management policy, in line with the long-term strategic objectives, profitability and balance of the Company and the Group. The Company does not adopt remuneration policies based exclusively or mainly on short-term performance, as this would encourage excessive risk exposure.

On the basis of these principles, the fixed remuneration component rewards the expertise, skills and, above all, responsibilities related to the position, with a fixed financial basis, in compliance with the provisions of collective bargaining agreements.

The variable remuneration component instead rewards performance both in the short and in the medium/long-term, not only in terms of revenue, but also in terms of focus on risk.

Considering the foregoing, the remuneration of those subject to the Remuneration policies, in 2019, in continuity with previous years, was aligned with the following principles:
- appropriate balance between fixed and variable component, with the latter linked to pre-set and measurable efficiency criteria, to strengthen the link between performance and remuneration;
- limits specified for the variable component;
- sustainability, with balance between short and long-term efficiency criteria, to which the remuneration is subordinated, both by ensuring the deferred and diversified payment of the variable component, and by reserving the right not to pay or ask for the repayment of this component in the presence of some elements, and the establishment of a one-year period during which the amounts provided in financial instruments are unavailable;
- the prohibition against relying on hedging strategies or specific insurance against the risk of a downward correction of remuneration, which could alter or invalidate the chance effects connected to the provision of deferred bonuses in the form of financial instruments.

The variable component of the remuneration is awarded to management personnel through the activation of an incentive system. This includes:

- a short-term component (STI Bonus), 50% of which is provided in monetary form, and 50% of which is provided in Unipol and UnipolSai Shares;

- a long-term component (LTI Bonus), 50% of which is provided in monetary form, and 50% of which is provided in Unipol and UnipolSai Shares.

The assignment of the Shares relating to the LTI Bonus due is postponed over a multi-year time period.
The incentive system links:
- the annual results of the Group and of the Company, expressed in terms of achievement of gross profit and solvency capital targets;

- the individual performance, measured in terms of both qualitative and quantitative targets, related to the specific organisational area of the recipient;
- the results measured over a three-year time period of the Group, expressed in terms of achievement of gross profit and solvency capital targets, as well as growth in the value of the Unipol Share and the Reputational Profile of the Unipol Group.

As regards the remuneration of the Board of Directors, annual Director compensation is fixed; they also receive reimbursements for expenses incurred to carry out their official duties and attendance fees for participation in each Board meeting, the Shareholders' Meeting and the meetings of any Committees of which they are members.

The Company also covers the cost of insurance covering the risks connected to third-party liability deriving from legal and contractual obligations inherent in the office of Director and the related legal protection.
After consulting with the Board of Statutory Auditors, the Board of Directors may provide additional fixed remuneration to Directors vested with specific duties; such Directors may also be provided supplementary *benefits* relating to lodging and/or the use of company vehicles.

Non-executive Directors are not provided with any variable remuneration component; on the other hand, after consulting with the Board of Statutory Auditors, Executive Directors may be recognised a short and/or long-term variable remuneration component, subject to the criteria set forth in the Company's incentive system.
There are no supplementary pension schemes for the members of the Board, while all employees, whether in an executive position or not, may join specific corporate Pension Funds, divided into Employees' Pension Funds and Executives' Pension Funds. These Funds are based on voluntary contributions made by the recipient and the company and envisage supplementary pension provisions on termination of the employment relation due to retirement.

B.2 Fit and proper requirements

At its meeting held on 14 March 2019, the Board of Directors adopted, pursuant to the industry regulatory provisions in force, the Fit&Proper Policy, which describes, inter alia, the procedures to assess the requirements of suitability for office – in terms of integrity, professionalism and independence, as well as of absence of causes of impediment, suspension and incompatibility – of the members of the administrative and control body, as well as the Managers of the Audit, Compliance and Anti-Money Laundering[6], Risk Management and Actuarial Functions.

The Board of Directors assesses whether each of its members and the General Manager meet the requirements set by legal and regulatory provisions in force at the time in terms of honourableness, professionalism and independence, as well as assessing the absence of causes of impediment, suspension and incompatibility pursuant to legal and regulatory provisions on interlocking directorships.
With regard to the requirements of independence of its members, the Board carries out its assessments also considering the cases specified by application criterion 3.C.4. of the Corporate Governance Code and with reference to the cases specified by application criterion 3.C.1. of the Code.
With particular reference to the evaluation of the independence requirement pursuant to the Corporate Governance Code and the Fit&Proper Policy mentioned above, we note that:

- in line with international best practice, special attention is paid to the requirement of the "substantial" independence, to ensure the composition of the interest of all Shareholders, both majority and minority; without prejudice, with reference to UnipolSai, to Art. 37 of CONSOB's Market Regulation, the Group has adopted a restrictive interpretation of the principles stated by the Corporate Governance Code, not counting as independent Directors pursuant to the Code, among others, the Directors holding offices within the Corporate Bodies of the companies that control directly and indirectly Unipol and UnipolSai;
- for the purposes of the evaluation of the independence requirement of a Director, attention is also paid to the annual consideration for any professional services provided to the company and/or subsidiary, if this represents more than 5% of the annual sales of the Company or the Entity of which the Director has the control or a significant position, or the Professional Practice or consulting company of which he is a partner or shareholder or, in any case, if it exceeds €200,000.

With regard to the suitability requirements described above, the Board of Directors carries out its evaluation:

[6] The requirements of suitability for office of the Manager of the Anti-Money Laundering Function are established in the Money laundering and terrorist financing risk management policy, adopted by the UnipolSai Board of Directors on 21 June 2019.

- for the entire Board of Directors, after it is appointed by the Shareholders' Meeting and, afterwards, at least once a year;
- for individual Directors, at the time of co-optation of one or more new Directors by the Board and after the appointment by Shareholders' Meeting, as well as in later board meetings when it is assessed whether all Directors continue to meet the requirements specified;
- for the General Manager, on appointment by the Board and, afterwards, at least once a year.

The Board carries out the evaluation reviewing the information provided by the individuals involved on the basis of their curricula vitae and the statements in lieu of certification provided by these, taking also into account the assessments carried out by the competent functions of the Company and the Group. This documentation is made available for review during the Board meeting and is put to the record.
The Board of Directors takes its resolutions with the abstention, each time, of the individual Director being assessed.
In particular, when verifying the possession of the requirements of professionalism specifically made for the Chairman of the Board of Directors, the Chief Executive Officer and the General Manager, if one is appointed, the Board assesses their experience also in regard to the management requirements of the Company.

The Board of Directors, during its meeting on 9 May 2019, fulfilled its obligations pursuant to current legal provisions with regard to the assessment of the possession by its members of the legal and regulatory requirements – in terms of integrity, professionalism and independence, as well as of absence of causes of impediment, suspension and incompatibility. This assessment was carried out in compliance with the Fit&Proper Policy.
Lastly, to assess whether Directors are able to carry out effectively their functions, the Board of Directors carries out – after its appointment and, later, once a year – an assessment of the compliance with the provisions on overlapping offices, as indicated in a specific regulation adopted by the Board as guideline for the maximum number of offices as director or statutory auditor that may be considered compatible with an effective execution of the tasks of Director, according to the provisions of the application criteria 1.C.2. and 1.C.3. of the Corporate Governance Code. This Regulation (which is available in the Corporate Governance Section of the UnipolSai website) sets some general criteria, which take into account the actual role that the Director has in other companies as well as the nature and size of these companies, introducing differentiated limits, respectively, for the position of Chairman and of executive, non-executive or independent Director, also considering the prohibitions on interlocking directorships set by legal and regulatory provisions.

In line with the best international practice and with the provisions of the Corporate Governance Code as well as with the supervisory provisions in force from time to time, the Board of Directors carries out an annual assessment on the size, composition and operation of the said administrative body and the Board Committees, also taking into account elements such as the professional characteristics, experience, including managerial, and the gender of its members, as well as their length of office (Board Performance Evaluation). The evaluation concerns also the possession, by the Board as a whole, of the technical expertise needed to the execution of the tasks assigned by current legal provisions, in compliance with the principle that, in the choice of the Directors, it is necessary to keep into account the size of the Group as well as the complexity and specificity of the sectors in which this operates, to ensure that the Board as a whole has the appropriate technical expertise in insurance and financial markets, systems of governance, financial and actuarial analysis, regulatory framework, sales strategies and business models.
The Managers of the Audit, Compliance and Anti-Money Laundering, Risk Management and Actuarial Functions are appointed by the Board of Directors from amongst parties meeting the same requirements of integrity as those set forth by regulations in force for the Directors and Statutory Auditors and of adequate professionalism pursuant to company policies in force on the matter.
Moreover, the Managers of the Audit, Compliance and Anti-Money Laundering, Risk Management and Actuarial Functions must meet the independence requirements envisaged for each of them by the supervisory provisions in force from time to time. The Board of Directors verifies that these requirements are met by all Managers at the time of their appointment and, later, at least once a year, during the regular assessment of the requirements of all Directors and Statutory Auditors. The evaluation is carried out through the review of the information provided by the individual involved in their curricula vitae and the statements in lieu of certification provided by these, taking also into account the assessments carried out by the competent units of the Company and the Group. This documentation is made available for review during the Board meeting and is put to the record.

The Board of Directors of UnipolSai, in its meeting on 9 May 2019[7], carried out, among other things, the regular assessment of the requirements of the Managers of the Audit, Compliance and Anti-Money Laundering, Risk Management and Actuarial Functions.

B.3 Risk management system, including the own risk and solvency assessment

B.3.1 Risk management system

The risk management system is the set of processes and tools used to support the risk management strategy of the Unipol Group; it provides an appropriate understanding of the nature and the significance of the risks to which the Group and the individual companies, including UnipolSai, are exposed. The risk management system makes it possible to have a single point of view and a holistic approach to risk management, and it is an integral part of the management of the business. The risk management system specifies the risk management process, applied also by UnipolSai, which is articulated as follows:

- identification of the risks, which consists in the identification of the risks believed to be significant, or those risks the consequences of which may jeopardise the solvency or the reputation of UnipolSai or represent a serious obstacle to the achievement of the strategic objectives;
- current and forward-looking assessment of the risk exposure; the current evaluation of the risks identified is carried out by using the methodologies specified by regulations and best practice with regard to the risks for which the measurement is not regulated or is specified with high-level principles. With regard to the forward-looking evaluation, we note that the internal assessment of risk and solvency (the "Own Risk and Solvency Assessment" or "ORSA") is used to support the strategic decisions of the Company;
- monitoring of the risk exposure and reporting, a system implemented – on the basis of the principles of completeness, timeliness and effectiveness of the disclosure – to ensure a timely and constant monitoring of the evolution of the Risk Profile and the compliance with the specified Risk Appetite. This system ensures that the quality and quantity of the information provided are proportional to the requirements of the different recipients and the complexity of the business managed, so that this may be used as a strategic and operational tool for the evaluation of the potential impact of the decisions on the risk profile and the solvency of the Company;
- risk mitigation, which consists in the identification and proposal of actions and initiatives necessary and/or useful to mitigate current or future risk levels, when these are not in line with the risk objectives specified.

The identification, evaluation and monitoring of the risks are carried out on ongoing basis to take into account the changes occurred both in the nature and size of the business and in the market context, and whether new risks arise or the existing ones change.

The risk management system follows an Enterprise Risk Management ("ERM") approach, that is, is based on the assessment of all current and forward-looking risks to which the Group is exposed, assessing the impact that these risks may have on the achievement of the strategic objectives.
To pursue these high-level objectives, the approach adopted takes into account the need to reconcile multiple requirements expressed by the main stakeholders. In particular, the Risk Management System must meet:

- the requirement of safeguarding the assets and the reputation of the company;
- the requirements of safety and solvency;
- the target rating;
- the need to diversify the risks and ensure sufficient liquidity.

B.3.1.1. Risk management and monitoring system: Risk Appetite

Based on the principles outlined above and to pursue the objectives assigned, the risk management system relies on a key element: the Risk Appetite.
The Risk Appetite may be set as a single measure (target) or as an interval of possible values (range) and is articulated in quantitative and qualitative terms.

[7] Following the appointment of the new Manager of the Audit Function, the Board of Directors assessed the fulfilment of the requirements of suitability for the office by the above-mentioned Manager of the Audit Function at its meeting on 3 October 2019.

The calculation of the Risk Appetite is structured, in quantitative terms, according to the following elements:
- capital at risk;
- capital adequacy;
- Liquidity/ALM (Asset Liability Management) ratios.

Quality objectives are defined in reference to compliance, emerging, strategic, reputational, ESG (Environmental, Social and Governance) and operational risks.

The Risk Appetite is formalised in the Risk Appetite Statement, which indicates the risks that the Company intends to take or avoid, sets the quantitative limits and the qualitative criteria to be taken into account for the management of unquantified risks.
The Risk Appetite is part of a reference framework - the Risk Appetite Framework (RAF). The RAF is defined in strict compliance and prompt reconciliation with the business model, the strategic plan, ORSA process, the budget, company organisation and the internal control system. The RAF defines the Risk Appetite and other components ensuring its management, both in normal and stress conditions. These components are:
- the Risk Capacity;
- the Risk Tolerance;
- the Risk Limit (or Operational Risk limits);
- the Risk Profile.

The activity to define the RAF components is dynamic, and reflects the risk management objectives associated with the objectives of the Strategic Plan. Verification is performed annually as part of the process of assigning Budget objectives. Further analyses for ex ante control of the Risk Appetite, and capital adequacy in particular, are performed when considering extraordinary transactions (mergers, acquisitions, disposals, etc.).

The RAF is broken down into several analysis macro areas with the aim of guaranteeing continuous monitoring of risk trends and capital adequacy. The main analysis macro areas are: individual risk type, overall risk, individual company, group.

The risk management system is formalised by the risk management policy, adopted by the Board of Directors of UnipolSai and subject to regular updates, which sets, in reference to the perimeter of competence, suitable guidelines for the identification, evaluation, monitoring and mitigation of the risks and the operational limits in line with the Risk Appetite specified. The Parent Company ensures that the risk management policy is implemented consistently and continuously within the entire Group, taking into account the risks of each company in the scope of group supervision and their mutual interdependencies, with reference to the provisions laid out in Articles 210 and 210-ter, paragraphs 2 and 3 of the Private Insurance Code ("CAP").

The principles and processes of the Risk Management System as a whole are governed by the following Group policies: "Internal current and forward-looking risk and solvency assessment policy", "Operational Risk Management Policy", "Group-level Risk Concentration Policy". The Risk Management System also includes policies setting the principles and guidelines for: (i) management of specific risk factors (e.g. Investment Policy for Market Risk and Credit Policy for Credit Risk, etc.), (ii) risk management as part of a specific process, (iii) risk mitigation and (iv) risk measurement model management.

B.3.1.2. Objectives and Core principles of Risk Management

Within the Risk Management System, the Risk Management Function is in charge of continuously identifying, measuring, assessing and monitoring the current and prospective risks at the individual and aggregated level that the Company is or may be exposed to and their correlations. In the exercise of its role, the Risk Management Function is responsible for designing, implementing and maintaining the risk measurement and control systems. Among these, particular relevance is given to the definition and the use of tools aimed at assessing the capital needed against the risks identified and, in particular, the Internal Model.
In this regard, we note that IVASS authorised[8] UnipolSai to use the Partial Internal Model ("PIM") to calculate the individual Solvency Capital Requirement with effect from 31 December 2016.

[8] See Measure No. 0025726/17 of 7 February 2017.

Within the Company, the responsibility for the design and implementation of the Partial Internal Model is separated from the responsibility for its validation.
The Risk Management Function also contributes to the dissemination of a risk culture throughout the Group.

B.3.2 Own risk and solvency assessment (ORSA)

The process for the execution of the internal current and forward-looking risk assessment is described - at the Group level - in the Internal Current and Forward-looking Risk and Solvency Assessment Policy, also adopted by the Board of Directors of UnipolSai and subject to regular updates, which moreover defines the tasks, roles and responsibilities of the Corporate Bodies and the units involved, the frequency of the quantitative analysis and the corresponding rationale and the quality standards for the data used in the analysis, as well as the cases when a new evaluation of the risks is required.
Through the own risk and solvency assessment, the Group pursues the following objectives:

- to highlight the link between the business strategy, the capital allocation process and the risk profile;
- to obtain an overall view of all risks to which the Group and the Companies are exposed, or could be exposed in the future, and the current and forward-looking solvency;
- to provide to the Board of Directors and Top Management an evaluation on the design and the effectiveness of the risk management system, highlighting at the same time any deficiency and suggesting remedial actions.

In particular, with reference to the current evaluation, these objectives are achieved by:

- the measurement of the capital required according to current legal and regulatory provisions, making use of the Internal Model;
- the evaluation of the capital adequacy of the Group and the Companies, on the basis of the results obtained under the previous point.

With reference instead to the forward-looking evaluation, the objectives are pursued through ORSA, which allows the analysis of the risk profile of the Group based on strategy, market scenarios and business trends.

In designing ORSA, the Group has followed the following principles:

- the evaluation of the risks at the Insurance Group level includes the risks from all companies included in the group supervision area and takes into account their correlations. For the purposes of the group ORSA, the ultimate Italian parent company defines a process for the assessment of risks at group level, which also includes those deriving from companies with registered office in third countries, from companies not subject to sector regulations and from other companies subject to specific sector regulations;
- ORSA, as well as being a legal requirement, represents an internal assessment element to support operational and strategic decisions; ORSA and strategic planning processes are strictly related;
- the estimates taken as reference for the development of the Strategic Plan are the basis for ORSA in a forward-looking approach;
- ORSA is used in support of the drafting/review of the Strategic Plan;
- ORSA takes into account all risks that may cause a significant decrease in Own Funds at the Group level and for each individual Company, or that have an impact on the ability to meet the commitments towards the policyholders, in line with the risk management policy. For the risks not included in the calculation of the capital requirements set by Pillar I of the Solvency II Directive, the Group carries out a qualitative assessment. Therefore, the assessment on these risks is basically aimed, rather than to quantify the potential loss, to verify the effectiveness of the controls implemented and the good operation of the management and monitoring processes;
- ORSA is carried out in compliance with the data quality standards set by the Data Governance Standard and the Data Governance Policy in force.

The execution of ORSA and the drafting of the corresponding report are started after the end of the reference year and follow a schedule consistent with the deadlines set by supervisory regulations.
Before the meeting called to approve the ORSA Report, the administrative bodies of Unipol, UnipolSai and the other companies approve the criteria and the methodologies – including the types of stress test and reverse stress tests - to be used for the drafting of the ORSA Report. The administrative bodies of UnipolSai and the other companies later approve, within their respective areas of competence, the sections of the ORSA Report that concerns them, before this is submitted to the Board of Directors of Unipol to be approved as a whole. In compliance with legal and regulatory provisions in force, the Group sends the ORSA Report to IVASS within the terms set forth by regulations.

B.3.2.1 Solvency needs

The internal current and forward-looking assessment is an integral part of the risk management system and the decision-making process of the Insurance Group and the Companies and presents therefore points of contact with other corporate processes, such as:
- strategic planning and capital allocation;
- definition of the Risk Appetite;
- monitoring and mitigation of risks;
- the preparation of the Group's Pre-emptive recovery plan.

As concerns the current assessment, please note that the indicators specified in the Risk Appetite Statement are monitored on an at least quarterly basis.
The forward-looking assessment, instead, is developed in line with the schedule and the elements of the Strategic Plan and the annual budget, through which the economic capital is allocated to each Company and risk category. The capital allocation process provides for each year of the Strategic Plan a projection of the Own Funds and an estimate, through Internal Model, of the capital required according to the Strategic Plan scenarios. This analysis is in line with the Risk Appetite Framework, as specified within the risk management policy.

B.3.3 Internal model governance

UnipolSai was authorised by IVASS to use a Partial Internal Model to calculate the Solvency Capital Requirement with reference to the following risk elements, as well as in the aggregation process:
- Non-Life and Health Underwriting Risks for the earthquake disaster component;
- Life Underwriting Risks;
- Market Risks;
- Credit Risk.

The PIM is also used in the risk management system and in the decision-making processes as a tool to support of the decisions of strategic relevance of the Company and the business activities. This model is in fact used for the definition and quarterly monitoring of the Risk Appetite, in line to which operational limits are specified for each risk factor, reviewed at least once a year to ensure their effectiveness over time and reported within the Group corporate Policies.

The governance, update and validation of the PIM are regulated, respectively, by the Internal Model Governance Policy, the Internal Model Update Policy and the Internal Model Validation Policy, adopted by the Board of Directors of UnipolSai and subject to regular updates.

B.3.3.1. Board of Directors

The Board of Directors has the final responsibility for ensuring that the PIM is appropriate in terms of design and functionality, that it continues to reflect the risk profile of the Company and that the resources involved in the development, monitoring and maintenance of the Model are appropriate in terms of number, experience and areas of competence with respect to the objectives of these activities. The Board of Directors has a clear understanding of the Internal Model, with particular reference to its structure and the ways in which this reflects the business and is integrated in the risk management system, of the context of application and its limitations, of the methodologies and the diversification effects considered.

B.3.3.2. Role of the Committees

In support of the Board of Directors, the Control and Risk Committee provides non-binding opinions on the validation of the PIM and any risk mitigation initiative related to PIM deficiencies identified during validation.

B.3.3.3. The Risk Management Function

The Chief Risk Officer ("CRO"), who reports hierarchically to the Chairman, is responsible for the Risk Management function. The Risk Management Models Validation Function reports to the CRO.
The Risk Management Function supports the Board of Directors, the Director in charge of the internal control system and Top Management in the evaluation of the structure and effectiveness of the Risk Management System, highlighting any deficiencies and suggesting ways of resolving them, as well as the methodologies and methods used, in particular in the internal risk and solvency assessment, for the management of such risks. With reference to the governance of the PIM, the Risk Management Function is responsible for designing and implementing said Model.
Lastly, it should be noted that the Risk Management Models Validation Function enjoys the necessary independence and separation in the performance of its tasks to avoid conflicts of interest with the function responsible for designing and implementing the Internal Model. The resources of the Risk Management Models Validation Function indeed are separate and independent from those which, in the Risk Management Function, are responsible for the design and development of the Internal Model.

B.3.3.4. Description of the validation processes used to continuously monitor the results and adequacy of the internal model

The validation process includes all elements of the PIM, the monitoring of its good operation, the ongoing monitoring of the suitability of its specifications and the cross-check of its results against historical data.
The perimeter of the validation extends to all operational units of the Parent Company and of the Companies that have obtained authorisation from IVASS to use the PIM and to all risks included in the perimeter of the PIM.
Besides the validation on first adoption, before authorisation by the supervisory authorities to use the PIM to calculate the SCR, the PIM is subject to:
- regular validation, with annual frequency;
- occasional validation, in addition to the regular validation cycle, in the cases indicated in the Internal Model Update Policy.

The stages of the validation process are:
- analysis of the risk modules and sub-modules that constitute the Internal Model for each area set out in the reference regulation;
- preparation of the tests to be performed to conduct the necessary checks to confirm the conclusions of the preliminary analysis and subsequent in-depth analyses;
- presentation of the analyses, tests and in-depth analyses carried out in a single document, organised by risk modules and sub-modules, areas analysed and tools used for the checks conducted.

In addition, although preserving the independence required by the reference provisions in the execution of validation activities, the Risk Management Models Validation Function makes recommendations to the developers of the PIM, with the objective of constantly improving its functioning.

B.4 Internal control system

The Internal Control and Risk Management System is a fundamental element in the overall corporate system of governance; it consists of the set of rules, procedures and organisational units that aim to ensure:
- effectiveness and efficiency of corporate processes;
- the appropriate mitigation of the current and forward-looking risks;
- the prevention of the risk that the company be involved, even unintentionally, in illegal activities, in particular those related to money laundering, usury and terrorist financing;
- the prevention and correct management of potential conflicts of interest, including those with Related Parties and with Intra-group Counterparties, as identified by legal and regulatory provisions of reference;
- the assessment of the implementation of corporate strategies and policies;
- the safeguard of the value of corporate assets, also in the medium-long term, and the proper management of those held on behalf of customers;
- reliability and integrity of information provided to Corporate Bodies and the market as well as of IT procedures;
- the suitability and timeliness of the company reporting system;
- the compliance of the business activities of the company and the transactions carried out on behalf of the customers with the laws and regulations, corporate governance codes and internal company provisions.

The Company implements an articulated and efficient Internal Control and Risk Management System, taking into account all applicable laws and regulations and business segments, in line with the guidelines identified at Group level, to ensure that the main risks arising from its activities are correctly identified, measured, managed and controlled, as well as being compatible with sound and correct management.
The Internal Control and Risk Management System is an integral part of the company and must extend to all sectors and units, involving all employees, each for his own level and responsibility, to ensure a constant and effective control of the risk.
The Internal Control And Risk Management System is defined in the Group Directives on the corporate governance system (the "Directives"), adopted by the UnipolSai Board of Directors on 21 June 2019, which are complemented by the Policies of the Key Functions, approved during the same board meeting[9].
The Board of Directors is in charge of the Internal Control and Risk Management System, and, in line with the guidelines set by the Parent Company, regularly verifies its suitability and actual operation, approving the Directives - which, inter alia, are the basis of the Internal Control and Risk Management System - as well as the Current and Forward-looking Risk Assessment and Risk Management Policies - and ensuring that the main corporate risks are adequately identified, assessed - also on a forward-looking basis - and controlled, as well as approving an organisational structure able to ensure, through an appropriate and consistent articulation, the separation of the roles in the execution of process activities, the traceability and visibility of the transactions and the transparency of the decision-making processes concerning to the individual operational processes.
The Director in charge of the internal control system, appointed by the Board of Directors, supervises the operation of the internal control and risk management system.
The Top Management (the General Manager and the senior management responsible for the top level of the decision-making process and implementing strategies) supports the Director in charge of the internal control system in designing and implementing the Internal control and risk management system, including therein those risks deriving from non-compliance with the regulations, in line with the risk governance directives and policies defined by the administrative body and with the guidelines provided by the Parent Company.

The Internal Control and Risk Management System is designed according to the guidelines described below:
- *separation of tasks and responsibilities*: the areas of competence and the responsibilities are clearly divided among bodies and units, to avoid gaps or overlaps that may affect the operations of the company;
- *formalisation*: the activities of the administrative bodies and delegated parties must always be documented, to ensure the control on the management and the decisions taken;
- *integrity, completeness and fairness of the data stored*: it is necessary to ensure that the data recording system and the corresponding reports have appropriate information on the elements that may affect the risk profile of the company and its solvency;
- *independence of controls*: the independence of the control functions with respect to the operational units must be guaranteed.

The Internal Control and Risk Management System is regularly submitted to evaluation and review, according to the developments of the corporate activity and the reference context.
The Internal Control and Risk Management System is articulated on multiple levels:

i. line controls ("first-level controls"), aimed at ensuring the correct execution of the transactions. They are carried out by the operating units (e.g. hierarchical, system and sampling controls), also through different units that report to the managers of the operating units, or carried out as part of back-office activities; as much as possible, they are incorporated in the IT processes. The operating units are the first line of the risk management process and must ensure the compliance with the procedures adopted for the execution of the process and compliance with the risk tolerance level chosen;
ii. controls on risks and compliance ("second-level controls"), which aim at ensuring, among other things, the correct implementation of the risk management process, the execution of the activities assigned by the risk management process, compliance with the operational limits assigned to the different functions, the compliance of corporate operations with external and internal regulations and the reliability and adequacy of the calculation of Solvency II technical provisions. The functions in charge of these controls are separated from the operational units; they contribute to the definition of the risk governance policies and the risk management process;

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[9] The documents mentioned entered into force from 1 January 2020. In fact, following the entry into force of Regulation 38, the arrangements for corporate governance system documentation were reviewed. In particular, the Directives on the internal control and risk management system, adopted by the Board of Directors already prior to the entry into force of Regulation 38, became an integral part of the broader Directives on the Group's Corporate Governance System, introduced by Regulation 38.

iii. internal audit ("third-level controls"), which aims at assessing the completeness, functionality and suitability of the Internal Control and Risk Management System (including first- and second-level controls) as well as the compliance of corporate operations with this.

In the definition of the organisational structure of the control function, the Unipol Group has adopted, again for 2019, for all companies of the Group with registered office in Italy subject to supervision (jointly, "Operating Companies"), a "centralised" model, with the main objective of ensuring uniformity and consistency at the Group level in the adoption of risk governance policies, procedures and methodologies and controls; it was in fact decided to use the following approach:

- set-up of the Key Functions in the Parent Company, with the task of carrying out the activities within their area of competence for the company, as well as at Group level;
- set-up of the Key Functions at UnipolSai;
- outsourcing of Key Functions to UnipolSai by the Operating Companies that belong to the Insurance Group, on the basis of specific outsourcing agreements in compliance with the minimal requirements specified by applicable supervisory regulations, and the appointment within those functions of Managers meeting the requirements of suitability for the office as set forth in the Fit&Proper Policy, which are assigned overall responsibility for their respective function;
- functional reporting to the Parent Company of all Key Functions created at the Operating Companies; in this case, the Parent Company carries out activities of governance, direction and co-ordination for the latter, also on the basis of a management system based on a functional relation with the decentralised units, pursuing therefore the following objectives:
  - integrated management of risks and controls;
  - common governance, direction and co-ordination approach in line with the objectives of the respective functions of the Parent Company and the strategies specified;
  - unity of action of the different Operating Companies of the Unipol Group.

As noted above, within the Internal Control and Risk Management system, the task of assessing that the internal procedures, processes, policies and organisation of the company are appropriate to prevent compliance risk is assigned to the Compliance Function. The compliance operational process is articulated in the following stages:

- Analysis of legal and regulatory provisions;
- Evaluation of the risk;
- Identification of corrective actions;
- Monitoring;
- Reporting.

The intensity of each stage depends on the "project" or "control" approach adopted by the Compliance Function, according to whether the evaluation: (i) is related to the coming into force of new laws and regulations or to new projects/products/processes, or; (ii) concerns external or internal provisions in force.

The assessments of the first type (ex ante assessments) are mainly aimed at supporting the Top Management in the corrective actions resulting from new projects/products/processes/laws and regulations; those of the second type (ex post assessments) have the purpose of representing the level of compliance of the procedures, processes, policies and internal organisation of the companies of the Group with legal and regulatory provisions applicable to the company, as well as compliance risk.

Ex ante assessments

The ex ante assessments are carried out at the time: i) of external events, e.g. the issue of new laws and regulations applicable to the companies by European or Italian legislators, Supervisory Authorities, etc. or ii) of internal events, e.g. the proposal by the management of new projects/products/processes.

These assessments are usually scheduled within the annual plan of the Compliance Function and the scope is chosen according to a priority system that focuses, mainly, on the relevance and the impact (also reputational) of the newly-issued legal and regulatory provisions (or the innovations of process or product envisaged) with respect to the organisation and business model of the company. The ex ante assessments may also be started after a one-off request by the Supervisory Authorities, the corporate bodies or the management.

Ex post assessments

The ex post assessments may have as object corporate processes ("process assessment") or external regulations of supervision or of particular relevance (e.g. IVASS Regulations, CONSOB, Laws and Decrees, etc.), as well as internal regulations. These assessments are usually scheduled within the annual plan of the Function, according to a priority system that focuses on:

- the need to "cover" all corporate processes;
- the results of previous assessments, ex ante and ex post;
- the need to "cover" the supervisory regulations, taking also into account the relevance and the complexity of these;
- the evaluation of the risks in regard to laws and regulations that are object of special attention by regulators and supervisory authorities, or that are subject to especially hard sanctions;
- the time passed since the latest analysis carried out by the Compliance Function and the other Key Functions in regard to the relevance of legal and regulatory provisions in question;
- the data related to claims and sanctions received, if available.

The ex post assessments may also be started following a one-off request by the supervisory authorities, the corporate bodies or the management.

B.5 Internal audit function

Audit is responsible for assessing and monitoring the effectiveness, efficiency and adequacy of the internal control system and the additional corporate governance components, as well as any need for updating, also through support and advisory activities provided to other company departments. The procedures of execution of the tasks assigned to the Audit Function are specified and formalised in the "Audit Function Policy".

The Manager has specific expertise and professionalism for the execution of the activities and has the authority needed to ensure its independence. Audit has been provided with personnel and technology resources consistent, for quantity and quality, with the purpose of the controls. Personnel in charge of the activities is given - for the execution of the assessments - access to all units and documents related to the corporate area object of assessment, including all information useful for the assessment of the suitability of the controls carried out on outsourced corporate functions.

Audit activities include in particular:

- the assessments on the fairness of management processes and the effectiveness and efficiency of organisational procedures;
- the assessment of the compliance of the different operational sectors with the limits set by the delegation mechanisms as well as of the full and correct use of the information available in the different activities;
- the assessments on the suitability and reliability of the IT systems so that the quality of the information on which the top management bases its decisions is ensured;
- the assessments to ensure that the administrative-accounting processes meet criteria of fairness and regular keeping of the accounts;
- the assessments on the effectiveness, efficiency and actual performance of the controls carried out on outsourced activities;
- the assessment of the regularity and functionality of the reporting activities between corporate sectors;
- the Solvency II checks on the elements that make up the internal control system monitoring the correct and effective governance of the models adopted by the Company to calculate the solvency capital requirement;
- the support to all units in the preparation of new processes and activities, through specific control and regulatory tasks, so that the necessary levels of security and the points of verification are appropriately specified and constantly monitored;
- the reporting to the Board of Directors, the Director in charge of the internal control system/Appointed Director, Top Management, managers of the operating units, the Control and Risk Committee, the Board of Statutory Auditors and the SB;
- the co-operation with the Control and Risk Committee, the independent audit company, the Board of Statutory Auditors and the SB.

Audit operates in compliance with the regulations, measures and resolutions of the supervisory authorities, the international standard issued by the Institute of Internal Auditors (IIA) and the best industry practice.

For each audit, detailed worksheets are prepared and archived electronically. The report signed by the Audit Manager and the members of the team is stored in the original at the legal office of the Company.

The Audit Reports are prepared on the basis of a standard model consisting of:
- a front page reporting: recipients of the report and date; company of reference of the audit, title and protocol number of the Audit Report, evaluation at Group and Company level of the risk of the process audited, evaluation of the corresponding control system, list of the companies to which the audited activity was outsourced;
- an Executive Summary reporting the objective of the audit, the summary of the significant findings made and the relative corrective initiatives of the management;
- a body of the report that includes, in addition to the objective of the audit already reported in the Executive Summary, an introduction (possibly), the indication of any limits of the audit, the description of the activity carried out, the findings identified, the corrective actions proposed (each accompanied by a summary evaluation of the urgency of the situation in graph form), the associated risks, the response of the management, those responsible for the corrections and the deadlines, the period during which the audit was carried out and the personnel involved.

Each audit that identifies findings is object of follow-up activities to verify that the corrective actions proposed by the management were implemented and are effective.
For inspections on the sales networks, the settlement networks and internal fraud, specific reports are prepared with details of the results with regard to compliance of said units with external and internal regulations and any irregularity found.

Audit regularly reports to the corporate bodies on the audit activities carried out, their results and the proposals made. In particular, it reports:
- at the end of each audit, promptly, to the Top Management and the managers of the functions audited, by sending the audit report described above, which, as already said, describes the issues identified, the proposals made to address the issues and the comments of the management;
- every six months to the Board of Directors and the Board of Statutory Auditors of the Company, with a report summarising the audits carried out in the reference period;
- on request, to the Board of Statutory Auditors, in the meetings of which Audit takes part when invited.

B.6 Actuarial Function

With reference to Solvency II Technical Provisions, in compliance with Art. 30-sexies of the CAP and with the relative implementing provisions and in line with what was decided at the time of set-up of the Actuarial Function, the Function carries out the following tasks:
- to coordinate the calculation of the Technical Provisions, as well as the evaluation and the validation of the data to be used in the procedure of evaluation of the adequacy of the provisions;
- to ensure the suitability of the methodologies and the models used, as well as of the assumptions on which the calculation of the Technical Provisions is based, also in terms of proportionality of the methodologies to the nature, magnitude and complexity of the risks underlying the commitments taken;
- to assess the adequacy and quality of the data used in the calculation of the Technical Provisions;
- to compare the best estimates with historical data;
- to inform the Board of Directors about the reliability and suitability of the Technical Provisions' calculation;
- to supervise the calculation of the Technical Provisions in the cases specified by legal and regulatory provisions;
- to express an opinion on the global risk underwriting policy;
- to express an opinion on the suitability of the re-insurance agreements;
- to verify the consistency between the amounts of the technical provisions calculated on the basis of assessment criteria applicable to the financial statements and the calculations resulting from the application of Solvency II criteria, as well as the resulting presentation and justification of any differences. This consistency check is also carried out between the databases and the data quality process adopted, respectively, for prudential and statutory purposes;
- to contribute to apply the risk management system effectively, in particular with reference to the modelling of the risks underlying the calculation of capital requirements, and internal assessment of risk and solvency.

Moreover, with reference to the provisions in the financial statements, the Function carries out the control activities specified in ISVAP Regulation No. 22/2008, as subsequently modified and supplemented, as well as drafts and signs the corresponding technical reports.
Lastly, the contribution of the Actuarial Function may be required also in the definition of the strategic plan as well as for specific requirements of business.

B.7 Outsourcing

UnipolSai is the main service provider of the Unipol Group. It is independent in almost all corporate areas and has the personnel and the skills to carry out these activities also on behalf of other companies of the Group.

The Company has also acquired the expertise to carry out, by appointment of the insurance companies and some other companies of the Group, the Key Functions needed to ensure the appropriate control on its organisation structure.

The guidelines on outsourcing are specified in the Group Outsourcing Policy, adopted by the Board of Directors of UnipolSai and regularly updated[10], which regulates the decision-making processes, responsibilities, tasks and controls required on the outsourcing of activities and corporate functions within the Unipol Group, as well as to third parties, in this way strengthening the control of the risks deriving from outsourcing.
The Policy in particular specifies:
- the criteria and restrictions to identify the activities to be outsourced;
- the criteria and the process to qualify activities as essential or important and the important operational functions;
- the criteria to select the suppliers;
- the decision-making criteria and process for the outsourcing of corporate functions or activities;
- the minimum content of the outsourcing contracts and the criteria to define the service levels of the outsourced activities required;
- the internal reporting activities to provide the control bodies and the Key Functions the full knowledge and governability of the risk factors related to the functions outsourced;
- the guidelines to be followed in case of inadequate execution of the outsourced functions by the service provider, including those related to emergency plans and exit strategies in the case of outsourcing of essential or important functions and activities;
- the reporting obligations towards the supervisory authorities.

In compliance with the relevant supervisory provisions, the Company deems essential or important those functions or activities that meet at least one of the following conditions:

i. anomalous execution or failure to execute may seriously jeopardise:
   a. the financial performance, the solidity/stability of the Company or the continuity and the quality of the services provided to customers; or,
   b. the ability to the Company to continue to meet the conditions for the authorisation to the exercise of the activities or the obligations specified by applicable supervisory regulations;

ii. concern operational processes of the Key Functions, or have a significant impact on risk management;

iii. are subject to legal reservation.

The following functions/activities, even if not meeting the conditions laid out above, should also be considered essential or important Functions or Activities:

iv. those which relate to processes of strategic relevance or processes strictly functional or connected to those of strategic relevance;

v. those whose anomalous execution could have a significant impact, in terms of reputational risk.

In compliance with regulations in force in the reference sector, the provisions of the "Outsourcing Policy" and the system of authorisations and powers adopted, the Company may outsource the typical activities and functions of its industry, as well as activities auxiliary and instrumental to running the business.

In any event, the Company cannot outsource the assumption of risk.

The Company may conclude outsourcing agreements, provided the nature and the quantity of the activities to be outsourced, as well as the outsourcing procedures, do not result in a transfer of the main activities of the Company. In particular, the Company cannot, by outsourcing:
- delegate its responsibilities, or the responsibilities of its Corporate Bodies. In line with this principle, the outsourcing of activities that are expressly included in the tasks of the latter is not allowed;

[10] The latest update to the Outsourcing Policy was approved by the Board of Directors of the Parent Company and of the Company on 14 March 2019, with a view to adjustment into line with the new relevant provisions set out in Regulation 38, as well as in Regulation no. 44 of 12 February 2019 relating to organisation, internal procedures and controls for the purposes of preventing the risk of money laundering and customer due diligence.

- jeopardise the quality of the internal controls and the system of governance of the Company;
- cause an undue increase in operational risk;
- outsource the Key Functions outside the Unipol Group;
- change the relations and the obligations towards the customers;
- jeopardise its ability to meet the obligations specified by supervisory regulations or fail to maintain the reserves provided for by the law;
- hinder the supervision.

The Company has identified among its personnel a contact person to control the outsourced activities and has formalised the tasks and responsibilities of this.
The outsourcing of essential and important functions, identified according to the above criteria, is subject - as well as to the prior notification to the supervisory authorities, if required, - (i) to the approval procedure specified by the system of mandates and powers in force, if the service providers belong to the Unipol Group and (ii) to the approval of the General Manager, in line with the corresponding system of mandates and powers, if the service providers do not belong to the Unipol Group. In particular, the Key Functions, given the relevance taken within the more general Internal Control and Risk Management System, may be outsourced, if allowed by legal and regulatory provisions, and in any case in compliance with the restrictions set by competent Supervisory Authorities, only within the Unipol Group, after resolution of the Board.
The table below provides information on the essential or important functions and activities[11] outsourced and the jurisdiction in which the providers of these functions and activities are located.

Essential or important outsourced functions or activities	Provider	Provider's registered office
Technical assistance in negotiating and signing contracts - management of Portfolio - Goods in Transit administr. Management	SIAT Società Italiana di Assicurazioni e Riassicurazioni p.A.	Via V Dicembre, 3 - Genova
Car repair	Auto Presto & Bene S.p.A.	Via Carlo Marenco, 25 - Torino
Digital storage of the insurance documentation (claims and acts)	Telepost S.p.A.	Via Poli, 4 - Zola Predosa (BO)
Document management	SIAV S.p.A.	Via Rossi, 5 - Rubano (PD)
Storage and archiving of FEA certified electronic signature	Telecom Italia S.p.A.	Via Gaetano Negri, 1 - Milano
Storage and archiving of the insurance registers	IN.TE.S.A. S.p.A.	Strada Pianezza, 289 Torino
Claims management	UP Services	Via Madonna del Violo, 6 - Poggio a Caiano (PO)
Handling tort before ANIA	ONE os S.r.l.	Via Principe Tommaso, 36 Torino
Liquidation of the Legal Expenses portfolio ceded to Reinsurers	ARAG SE Rappresentanza Generale e Direzione per l'Italia	Viale del Commercio, 59 - Verona (VR)
Claims settlement relating to prior years	BL Consulenze	Via La Spezia, 1 Milano
Claims Middle Office	Corvallis S.p.A.	Via Giovanni Savelli, 56 - Padova
Extrajudicial credit (premiums) recovery before legal proceedings	Mirò S.r.l.	Via del Perugino, 6/H – Bologna
Reinsurance Risk carrier and service provider	UnipolRe dac	The Watermarque Building, Ringsend Road - Dublino (IR)
Adimistr. SARC	Corvallis S.p.A.	Via Giovanni Savelli, 56 - Padova
Call center for medical assistance, addressing,reservations, claims management and settlement	UniSalute S.p.A.	Via Larga, 8 - Bologna

[11] The classification as Essential or Important in this table is originated, for some contracts, by the analysis carried out at the time of the reporting required by the coming into force of the relevant Insurance Regulation or by later activations, in any case before the issue of the Group Outsourcing Policy, and may therefore sometimes depart from the criteria set by this.

B.8 Any other information

The Board has reviewed the suitability of the organisation, administrative and accounting structure and, in particular, of the Internal Control and Risk Management System of the Company and its main subsidiaries, on the basis of regular reports of the Chief Executive Officer, the Control and Risk Committee and the Key Functions.

There is no other significant information on the company's system of governance.

C

RISK PROFILE

C.1 Underwriting risk

Non-Life and Health Underwriting Risks

Non-Life and Health Underwriting Risk is represented, within the PIM, through the following risk sub-modules:

- Premium Risk: risk deriving from fluctuations concerning the timing, frequency and seriousness of insured events related to contracts in force at the date of evaluation or that will be underwritten in the year after the date of evaluation t ("next year"). Valued with the Standard Formula, which is based on the use of volatility parameters, specified by Regulators or company-specific, expressed as percentage of a measure of volume. The measure of volume for Premium Risk is represented by an estimate of the premiums that will accrue the year after the valuation date;
- Reserve Risk: risk deriving from fluctuations concerning the timing and amount of future payments for claims already made at the date of evaluation. Valued with the Standard Formula, based on the use of volatility parameters, specified by Regulators or company-specific, expressed as percentage of a measure of volume. The measure of volume for Reserve Risk is represented by the best estimate of claim provisions;
- Catastrophe Risk: risk of losses or unfavourable changes in the value of the insurance liabilities due to extreme or exceptional events. Valued with an internal model for Earthquake Risk and with the Standard Formula for the remaining risks;
- Lapse Risk: risk of early extinction – on the initiative of the policyholder – of multi-year contracts. Valued with the Standard Formula.

For the calculation of the capital requirement for the Premium and Reserve sub-modules using the Standard Formula, the specific parameters of the Company (Undertaking Specific Parameters, or USP) were used for the segments object of specific authorisation by the supervisory authorities; the Market Wide parameters were used in all other cases. The authorisation concerns the following segments of the insurance and re-insurance obligations as specified in Annex II to the Delegated Regulation EU 2015/35, 10 October 2014:

- Segment 1: Proportional insurance and reinsurance on TPL resulting from the circulation of vehicles (Motor Vehicle Liability Insurance - MVL);
- Segment 4: Proportional insurance and reinsurance against fire and other damage to property (Fire and other damage to property insurance - FDP);
- Segment 5: Proportional insurance and reinsurance on general TPL (General Liability Insurance - GLI).

With the exception of Earthquake Risk, Catastrophe Risks are assessed with the Scenario Based method of the Standard Formula, as specified by the Delegated Regulation of the Solvency II regulations. The Partial Internal Model for the evaluation of Earthquake Risk consists of three different calculation modules:

- "Hazard": assesses the uncertainty associated with the possibility of an earthquake occurring in a given area (frequency) and the uncertainty relating to its magnitude (intensity);
- "Vulnerability": assesses the seismic vulnerability of different types of insurable assets to a seismic event of a given intensity;
- "Financial": identifies the economic loss to the insurance company (in terms of deductibles, the sum insured, reinsurance cover, etc.).

Surrender risk is assessed using the method specified by the current legal and regulatory provisions, based on a scenario of loss of a part of the multi-year policy portfolio with positive expected profit.

The Partial Internal Model configuration for the Non-Life and Health risk modules of UnipolSai envisages the production of the probability distribution function (PDF) of the aggregated loss of the two modules based on the results produced by the Standard Formula (USP if applicable) for the Premium and Reserve, Lapse and Catastrophe sub-modules – all with the exception of Earthquake – and by the Internal Model for the Earthquake Catastrophe risk.

The following table provides volume measures for Non-Life and Health Premium and Reserve Risk. The data are reported for each LoB in which the Company operates.

Volume measure for Non-Life and Health premium and reserve risk

Amounts in €k	Volume measure and premium risk	% on total	Volume measure and reserve risk	% on total
Motor vehicle liability insurance	3,181,857	41.2%	4,637,350	53.8%
Fire and other damage to property insurance	1,285,413	16.6%	722,760	8.4%
General Liability Insurance	793,386	10.3%	2,382,910	27.7%
Total LOB USP	5,260,656	68.0%	7,743,019	89.9%
Other motor insurance	758,290	9.8%	154,875	1.8%
Marine, aviation and transport insurance	18,069	0.2%	45,173	0.5%
Credit and suretyship insurance	42,563	0.6%	171,405	2.0%
Legal expenses insurance	25,941	0.3%	35,358	0.4%
Assistance	206,725	2.7%	30,485	0.4%
Miscellaneous financial loss	71,773	0.9%	22,833	0.3%
Non-proportional property reinsurance accepted	694	0.0%	5,256	0.1%
Non-proportional casualty reinsurance accepted	2,623	0.0%	9,013	0.1%
Non-proportional marine, aviation and transport reinsurance		0.0%	451	0.0%
Income protection insurance	722,737	9.3%	317,244	3.7%
Medical expense insurance	620,661	8.0%	81,775	0.9%
Non-proportional health reinsurance accepted	314	0.0%	329	0.0%
Total	7,731,047	100.0%	8,617,215	100.0%

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

The SCR of the Non-Life and Health Underwriting risk module for UnipolSai calculated with the Partial Internal Model, using USP parameters at 31 December 2019, was equal to €1,849,835k. With respect to the solvency requirement at 31 December 2018, there was a change of -€25,115k primarily due to the decline in the capital requirement of the Non-Life Premium and Reserve sub-module; this change in the requirement is explained by the decrease in measures of volume with respect to 2018 and the update in USP parameters.

Non-Life and Health SCR with Partial Internal Model use

Amounts in €k

Risk sub-module	2019	2018	Change on 2018
Non-Life	1,829,486	1,860,764	(31,278)
Non-Life premium and reserve	*1,575,332*	*1,642,060*	*(66,729)*
Non-Life surrender	*10,502*	*8,837*	*1,665*
Non-Life CAT	*437,286*	*335,222*	*102,065*
Health	338,492	297,837	40,655
Non-Life and Health SCR	1,849,835	1,874,950	(25,115)

Concentration of risks
According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The risk concentration is measured in line with the provisions of the specific policy approved by the Board of Directors of the Parent Company Unipol Gruppo S.p.A. This policy provides for the risk concentrations to be measured with respect to:

- insurance liabilities in financial statements:
  - values of provision for individual claim;
- potential liabilities outside the financial statements:
  - natural catastrophe exposures[20] grouped by risk factor and appropriate territorial clusters;
  - exposures by risk or policy on individual insured party or group of related parties;
  - exposures for the Bond class grouped by sector.

Risk mitigation techniques
The Company uses outwards reinsurance as risk mitigation technique.
With regard to the Premium and Reserve risks, the calculation of the capital requirement at 31 December 2019 was carried out by taking into account the outwards reinsurance agreements, both for their effect on the measures of volume and, if appropriate, for their impact on the USP parameter estimates, as specified by legal and regulatory provisions.

For the calculation of the capital requirement at 31 December 2019 for the Catastrophe Risk (non-life CAT) sub-module using the Standard Formula, the outwards reinsurance agreements were applied in line with the provisions of IVASS Regulation No. 31, 9 November 2016. For the calculation of the capital requirement for Earthquake Risk using the Internal Model, the outwards reinsurance agreements were applied in line with legal and regulatory provisions and integrated with the other secondary risk sub-modules.

Life Underwriting Risks

The underwriting risk for Life insurance represents the risk deriving from Life insurance commitments, keeping into account the perils covered and the procedures used in the exercise of the activity.

The Life portfolio of UnipolSai consists mostly of revaluable products, related to the financial returns of segregated funds (LoB1).
Table 1 shows the breakdown of the composition of the portfolio in terms of Best Estimate of Life liabilities.

Life portfolio at 31 December 2019

Amounts in €k

Best Estimate of Liabilities (BEL)	2019
Insurance with profit participation	28,851,002
Index-linked and unit-linked insurance	5,625,294
Other life insurance	(72,608)
Indirect business	5,037
Total	34,408,726

20 Considered significant on the basis of the analysis of the portfolio risks of the Group.

The portfolio of UnipolSai is exposed to the following risk factors:

- **mortality risk**: associated with an unfavourable change in demographic bases resulting from experience (higher death rate) compared to those used in determining the tariff;
- **longevity risk**: associated with an unfavourable change in demographic bases resulting from experience (lower death rate) compared to those used in determining the tariff;
- **surrender risk**: associated with adverse changes in the level or volatility of the incidence of surrenders, withdrawals, early settlements and terminations in premium payments;
- **expense risk**: associated with adverse changes in the value of expense linked to policies compared to the values used to determine the tariff;
- **catastrophe risk**: deriving from an unforeseeable event, the consequence of which is to affect multiple individuals at the same time, generating a number of claims for amounts significantly higher than expected.

The Company UnipolSai was authorised, from 31 December 2016, to use the Internal Model for the evaluation of the following risk factors:

- mortality/longevity risk;
- surrender risk;
- expense risk.

Catastrophe risk and the Class D component of the Life portfolio (Index Linked, Unit Linked and Pension Funds) are instead assessed with the Standard Formula.

In the period subject to analysis, a change was made to the depth of the time series used to calibrate the rate model used to calculate the Best Estimate Liabilities to align it with that used to calibrate the rate model to calculate risk; this modification has immaterial impacts on the value of BEL and the SCR.

With reference to the years ended 31 December 2019 and 31 December 2018, we provide a breakdown for the individual SCR sub-modules of the Underwriting risk.
Please note that the Life Underwriting risk SCR represented hereunder, in line with the QRT S.25.02.21, does not include the Conservative Margin defined by the Supervisory Authority on the surrender risk sub-module.

Life SCR partial internal model

Amounts in €k

Risk sub-module	2019	2018	Change on 2018
Mortality/Longevity	*77,931*	*55,561*	*22,370*
Disability			
Surrender	*177,789*	*128,213*	*49,577*
Life expenses	*74,942*	*68,979*	*5,963*
Revision			
Life catastrophe	*27,164*	*27,590*	*(426)*
Life SCR Remaining part	244,359	196,409	47,950
SCR Ring Fenced Fund	14,542	19,332	(4,789)
Life SCR	258,901	215,741	43,161

The main source of risk is represented by surrenders, the SCR of which is equal to 50% of the non-diversified Life Underwriting Risk.
With respect to the solvency requirement at 31 December 2019, there was a €47,950k increase in the Life SCR Remaining part, primarily due to the increase in surrender risk.
This change can be attributed to i) the joint effect of the lower exposure of surrender frequencies and declining interest rates recorded in the course of 2019, as well as ii) the natural evolution of the policy portfolio.

Concentration of risks

According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The Company contributes to the significant risk concentrations observed at the Group level through its insurance liabilities.
With reference to risk concentrations, special attention is paid to surrender and mortality risks.

In general, the Company aims to mitigate the concentration of its exposure to surrender risk by limiting contracts entered into for significant amounts with the same policyholder. This guideline is followed in general individual and corporate product placement activities, and in particular with reference to capitalisation contracts linked to segregated funds. If the policyholder represents multiple parties (such as a Pension Fund) and even more so if the investment risk is borne by those insured (LoB 2), specific assessments are performed on a case by case basis considering the lower probability of the simultaneous surrender of the entire group of participants and thus the lower impact of surrender risk.

With regard to mortality risk, re-insurance and other risk transfer techniques are the main tools used by the Company to mitigate the exposures or the concentration of exposures that could lead to a divergence of the current risk profile from the one desired.

We note that within the setting of Risk Appetite levels, Life Underwriting Risks are measured in terms of capital at risk. Notably, the capital at Life Underwriting Risk takes into account all risks and all exposures related to the Life portfolio, including those exposures classified as being at risk of concentration.

Risk mitigation techniques

Mitigation actions may be taken through re-insurance, with the transfer of a portion of mortality risk.

C.2 Market risk

Market risk includes all those risks that result in the deterioration of financial or real estate investments because of the adverse evolution of important market variables.

With the Internal Model it is possible to calculate the value of the capital needed to absorb the maximum potential loss, maintaining the solvency of the Company. Pursuant to Solvency II guidelines, the amount of the potential loss is measured in terms of Value at Risk (VaR), understood as the maximum potential loss that the company may incur over a given time horizon, with a given confidence interval. The internal model takes as time horizon a period equal to one year and a confidence interval equal to 99.5%.

The Market Risk classes identified are the following:

- Interest rate risk: the risk of a potential adverse change in the net asset value due to a change in the term structure of interest rates;
- Interest rates volatility risk: the risk of a potential adverse change in the net asset value due to a change in the volatility of interest rates;
- Equity risk: the risk of a potential adverse change in the net asset value due to changes in stock market prices;
- Equity volatility risk: the risk of a potential adverse change in the net asset value due to changes in the volatility of equities;
- Exchange rate risk: the risk of a potential adverse change in the net asset value due to changes in the value or the volatility of exchange rates;
- Spread risk: the risk of a potential adverse change in the net asset value due to changes in the value of the credit spread with respect to the risk-free curve;
- Yield risk: the risk of a potential adverse change in the net asset value due to joint changes in the value of the credit spread and the risk-free rates;
- Property Risk: the risk of a potential adverse change in the net asset value due to changes in the value of the land, buildings and corresponding rights, direct and indirect participations in real estate companies, as well as instrumental property used for insurance activities and investment funds the components of which may be considered equivalent to the categories previously described;

- Concentration risk: the additional risk deriving from a limited diversification of the financial asset portfolio, or a high exposure to the default of a single issuer.

UnipolSai was authorised, from the year ended 31 December 2016, to use the Internal Model to calculate the capital requirement for the following risk factors:

- Interest rate risk;
- Interest rates volatility risk;
- Equity risk;
- Equity volatility risk;
- Exchange rate risk;
- Spread risk;
- Yield Risk;[21]
- Property Risk.

Concentration Risk and Market Risk for index linked and unit linked policy portfolios and pension funds are instead assessed with the Standard Formula.

These risk classes make possible an appropriate representation of the measurement of the maximum loss and the trend of the profits and losses on the investment portfolio according to the investment classes specified by the Group Investment Policy. The Group Investment Policy defines the investment activity on all the assets of the company included in the perimeter, according to the nature, magnitude and complexity of the risks characterising the corporate activities, in line with the principles of prudent management. It takes into account, on one hand, the risk appetite and the possibility to identify, measure, monitor and manage the risks related to each asset type without relying only on the fact that the risks are correctly considered in the capital requirements and, on the other, the characteristics and the nature of the liabilities, the cash flows matching requirements and the control of the investment margins.

The financial portfolio at 31 December 2019 consisted for 79.1% of bonds and, in particular, 55.7% of financial assets consisted of government bonds. Real Estate and Equity investments accounted for 5.1% and 7.5% of the portfolio respectively.

Composition of the financial portfolio

Amounts in €k	Solvency II value 2019	Exposure % on total PTF
Property, plant & equipement held for own use	675,721	1.4%
Investments (other than assets held for index-linked and unit-linked contracts)	1,716,189	3.7%
Holdings in related undertakings, including participations	3,524,143	7.5%
Equities	895,424	1.9%
Equities - listed	*726,320*	*1.5%*
Equities - unlisted	*169,104*	*0.4%*
Bonds	37,196,437	79.1%
Government Bonds	*26,189,556*	*55.7%*
Corporate Bonds	*10,356,009*	*22.0%*
Structured notes	*650,872*	*1.4%*
Collective Investments Undertakings	2,762,949	5.9%
Derivatives	153,498	0.3%
Deposits other than cash equivalents	70,995	0.2%
Total portfolio	**46,995,355**	**100.0%**

[21] The Market internal model generates joint distributions for the returns on financial and industrial securities, the returns on government bonds and the risk free curve. The spread risk is obtained on the basis of a marginal distribution of the spread of financial and corporate securities not significant for the purposes of the calculation of the Market VaR.

The value of the Class D portfolio, consisting of assets relating to Unit-linked and Index-linked policies, came to €4,772,119k at 31 December 2019. This value is not included in the table above.

All assets, in particular those set against the minimum capital requirement and the Solvency Capital Requirement, are invested in a way to ensure the safety, quality, liquidity and profitability of the portfolio as a whole.

The strategic investment policy, defined in the Group Investment Policy, identifies the investment activity on all the assets of the company included in the perimeter, according to the nature, magnitude and complexity of the risks characterising the corporate activities, in line with the principles of prudent management. It takes into account, on one hand, the risk appetite and the possibility to identify, measure, monitor and manage the risks related to each asset type without relying only on the fact that the risks are correctly considered in the capital requirements and, on the other, the characteristics and the nature of the liabilities, the cash flows matching requirements and the control of the investment margins. In light of what is laid out above, the strategic investment policy establishes, for each company and as a result for the Group as a whole, the strategic medium/long-term composition of the investment portfolios, defining limits on investments by individual company and specific limits at consolidated level for each source of significant risk for the Group, providing for an adequate diversification and spreading of assets so as to guarantee the continuous availability of sufficient assets to cover liabilities, as well as the security, quality, liquidity and profitability of the portfolio as a whole, taking into account, for investments concerning the Life business, the reasonable expected returns of policyholders, compatible with the types of policies taken out, with the minimum level of return and with the minimum level of security that the Companies intend to guarantee, as well as what is laid out in contractual regulations.
The strategic investment policy is also adopted taking into account the fact that the assets covering the technical provisions must be adequate in relation to the nature of the risks and obligations assumed and the duration of the liabilities, in the best interest of all policyholders, the insured, the beneficiaries and those entitled to insurance benefits, while observing the supervisory provisions on the coverage of technical provisions. The underlying principles of the strategic investment policy are:

- general principles of security, quality, liquidity, profitability and availability of the entire asset portfolio, taking into account the liabilities held;
- evaluation of risk appetite, risk tolerance levels and the possibility to identify, measure, monitor and manage risks connected to each asset type;
- Strategic Asset Allocation which ensures the achievement of the targets pursued by the integrated asset and liability management and the liquidity and concentration risk management policies as well as return objectives;
- definition of investment selection and management criteria in the best interest of the policyholders and beneficiaries, and those entitled to insurance benefits, including if there is a conflict of interests, taking into account the financial market environment.

In the period subject to analysis, a modification was made to the floor and probability parameters used for the calibration of interest rate risk in order to better reflect the Company's risk profile in this scenario of low interest rates; this modification resulted in a limited increase in the SCR.

Given the composition of the financial portfolio, we provide below the SCR figures calculated with the Internal Model for the year ended 31 December 2019 and a comparison with the capital requirement relating to 31 December 2018.

Market SCR internal model

Amounts in €k

Risk sub-module	Market SCR 2019	Market SCR 2018	Change on 2018
Interest Rate	609,024	570,861	38,163
Equity	1,517,185	1,312,452	204,733
Property	609,016	612,477	(3,460)
Spread	1,327,606	1,375,687	(48,081)
Exchange	34,299	33,015	1,284
SCR Market Remaining part	2,350,361	2,070,155	280,206
SCR Ring Fenced Fund	21,873	19,271	2,602
Market SCR	2,372,234	2,089,426	282,808

With respect to the solvency requirement at 31 December 2018, there was a €280,206k increase in the Market SCR Remaining part, primarily due to the rise in the equity and interest rate module.
The increase in equity risk was due i) to the reduction of the benefit of derivative strategies and ii) the increase in investments subject to equity risk. On the other hand, interest rate risk increased as a result of i) the change in the contribution to the risk of Future Discretionary Benefits (FDB) of the Life liabilities and ii) an increase in the volatility of the risk factor and therefore of the shocks generated by the model.

More specifically, Market Risk mainly depends on Equity Risk and Spread Risk, which are the sub-modules with the greater incidence on total Market Risk. The spread risk is obtained on the basis of a marginal distribution of the spreads of financial and corporate securities. This distribution is not significant for the purposes of the calculation of the Market VaR given that the Market Internal Model generates joint distributions of risk-free rates and spreads as regards financial and corporate securities.

We note that Equity Risk and Property Risk include, respectively, participations in non-real estate and real estate insurance subsidiaries, which within the Group contribute to the determination of the capital requirement through the line-by-line consolidation of the assets and liabilities of such entities.

Concentration of risks
According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The Company contributes to significant risk concentrations at the Group level, through the exposures deriving by its investment in securities included in the Macro Asset Class Equity and Corporate Bond and Equity investments specified in the Group Investment Policy.

The risk concentration policy of the Group specifies a "Limit of concentration on investments and loans", which includes, as well as loans and credits, also any exposure in equity or debt securities. The concentrations are recognised mainly at the level of counterparty or group of related counterparties, sector, geographic area and currency.

Risk mitigation techniques
To mitigate Market Risk, the Company has set up a series of controls to ensure that the risk mitigation techniques maintain their effectiveness. Specifically, monthly tests are carried out to assess the effectiveness of the derivative hedges taken out by the Company. In order to mitigate current or future risk not in line with the risk objectives specified, financial transactions to mitigate the risks may be carried out: these mitigation transactions are carried out on the derivative markets. The objectives of the use of derivatives are:
- to reduce the risk of the investment;
- to achieve an effective portfolio management by improving the level of quality, safety, liquidity or profitability of the portfolio without significant reduction for any of these characteristics.

These transactions do not have speculative purposes; short selling is not allowed.
Moreover, the Investment Policy specifies Market Risk limits and Sensitivity limits.

With regard to Market Risk limits, a warning threshold is specified for the Companies, keeping into account the resolutions taken by the respective Administrative Bodies on Risk Appetite and in particular the economic capital component allocated by the Parent Company and by the individual companies to Market Risk.

This warning threshold is set equal to 95% of the Risk Appetite specified for Market Risk (total Value at Risk per individual Company, with 99.5% confidence interval and a holding period equal to 1 year).

With regard to Sensitivity limits, the following limits related to the sensitivity of the financial asset portfolios for different risk factors are specified:

a) for widening of the credit spreads of +100 bps;
b) for change in equity prices of -45%.

C.3 Credit risk

Credit risk (Counterparty Default Risk) identifies the risk that a borrower or an enforced guarantor may fail to meet, fully or in part, his monetary obligations towards the Group. Credit risk reflects, therefore, the likely loss generated by an unexpected default of the counterparties and the debtors of the insurance and re-insurance companies in the next 12 months.

From the year ended 31 December 2016, the Company has been authorised to use its Internal Model for the evaluation of the Credit risk: the methodology adopted to assess the risk of default is CreditRisk+. The model produces a closed analytical formula, which describes the entire loss distribution. This allows to identify the VaR measure at a confidence level and time horizon consistent with the calibration standards agreed for the Internal Model.

The types of exposures relevant to the quantification of Counterparty Default Risk with the internal model are the following:

- Exposures to Banks: this category includes short-term liquidity deposits and the exposures against OTC derivative hedges;
- Exposures to Re-insurers: this category includes receivables resulting from current account balances and the potential receivables represented by the provisions due by the Re-insurers (net of the deposits received);
- Exposures to Insurance Companies: this category includes receivables from insurance companies for co-insurance relations and other receivables from insurance companies;
- Exposures to Intermediaries: this category includes receivables from agencies and brokers and mainly consist of the decadi (payment of premiums collected) to be transferred to the company;
- Exposures to Policyholders: this category includes receivables for premiums not yet collected against contracts underwritten for settlement of premiums to be settled and for late premiums, as well as disputed receivables;
- Exposures to other counterparties duly identified, or exposures for which there is sufficient information to estimate the risk.

The following types of exposure are instead assessed using the Standard Formula:

- Loans: this category includes loans to employees, agencies and loans on Life policies;
- Sums to be recovered: loans to policyholders or third parties in relation to claims for which payment of the claim has been made (reimbursements and deductibles);
- Other Receivables: this category includes all receivables not already included in the previous categories.

Credit SCR - Exposure

Amounts in €k

Exposure type	Exposure 2019	Total PTF %
Internal Model (IM)	5,283,124	94.7%
Standard Formula (STDF)	294,818	5.3%
Total	**5,577,942**	**100.0%**

We provide below the value of the Solvency Capital Requirement for Credit Risk for the year ended 31 December 2019 and the comparison with the value for the year ended 31 December 2018, with a breakdown for the types of exposure covered by the Internal Model (IM) and those covered by the Standard Formula (STDF):

Credit SCR

Amounts in €k

Exposure type	SCR 2019	SCR 2018	Change on 2018
Internal Model (IM)	283,909	224,778	59,131
Standard Formula (STDF)	49,212	50,538	(1,326)
Credit SCR	**333,121**	**275,316**	**57,805**

The Internal Model assesses the exposures using risk parameters derived from market information, for listed counterparties, or calibrated on historical data of the Company (exposures to Intermediaries and Policyholders). The exposures valued with the Solvency II Standard Formula are instead calculated using the weights provided by the Delegated Regulation (EU) 2015/35. The total requirement of the company is calculated by adding the two SCR components calculated separately, making a prudential assumption of full correlation of the risks assessed through the two different procedures.

With respect to the solvency requirement at 31 December 2018, there was a €57,805k increase primarily due to the higher volume of exposures to reinsurers as well as exposures to other counterparties duly identified.

<u>Concentration of risks</u>
According to the provisions of Chapter III of IVASS Regulation No. 30, 26 October 2016, risk concentrations are assessed at the Group level. The Company contributes to the calculation of significant risk concentrations at the Group level through the exposures deriving from coinsurance and re-insurance transactions and transactions in derivatives contracts.

With regard to the management of Credit Risk, the Company has been applying limits based on both operational exposures (deposits and receivables from Insurance and Re-insurance companies), and financial exposures in securities or derivatives to counterparties or groups of counterparties (as well as traditional limits by individual name and risk category). These limits are monitored on an ongoing basis through a process that involves both operating committees and the administrative body.

Moreover the Group Credit Policy, which specifies the Credit Risk assumption practices, sets limits to the assumption of risk towards counterparties with an inadequate credit rating: this credit rating is assessed and constantly monitored, using both external indicators (e.g. market rating or parameters), and indicators specified internally (parameters used also for Partial Internal Model purposes).

With regard to risk concentrations, the Company must comply with the principles of assumption of the risk, the limits and the procedures of management specified in the Group Credit Policy and in the Risk Concentration Policy. The two Policies define, among other things, a mechanism for the identification of the exposures that, due to their size, may represent a significant risk at the Group level. They define the mechanisms of risk management, internal control and an organic decision-making process, common to all Companies of the Group. This process is structured to ensure that the Parent Company is informed of the assumption of risk of a more significant amount. The Credit Policy also sets the roles and the responsibilities of the bodies involved in the process of control of the risks at the Group level.

To mitigate concentration risk, limits of functionality are specified, keeping into account the risk profile of the Company, in regard to the risk concentrations for:

- counterparties or Groups of related parties;
- sector;
- type of exposure;
- type and/or size of counterparty.

The Risk Concentration Policy also sets a "Concentration limit on investments and receivables", which includes, for each counterparty or group of related parties, in addition to loans and receivables, any exposure to equity or debt securities.

The concentrations are recognised mainly at the level of counterparty or group of related counterparties, sector, geographic area and currency.

At 31 December 2019, the Company was mainly exposed to counterparties operating in the financial sector (banks and re-insurers) as well as to policyholders and insurance intermediaries (agencies and brokers).

Risk mitigation techniques
The risk mitigation techniques adopted to mitigate the exposures to Credit Risk are the following:

- *exposures towards re-insurers*: deposits with the Group for the risks ceded and retroceded that are generally moved (placed and repaid) annually or half-yearly. Their duration largely depends on the specific nature of the underlying insurance benefits and on the actual duration of the reinsurance agreements, which are renegotiated at the end of each year. For exposures to reinsurers, the Group also makes use of a limited number of guarantees consisting mainly of Letters of credit and Securities. The re-insurance agreements may also be subject to downgrade clauses, which specify the obligation to provide additional guarantees if the counterparty fails to meet the minimum credit rating requirements set in the Credit Policy.
- *exposures in derivatives*: derivative contracts are taken out with counterparties subject to ISDA contracts with corresponding Credit Support Annex, which specify the full collateralisation of the Marked to Market exposures.
- *exposures towards intermediaries*: portfolio indemnities are the main form of mitigation for exposures towards agencies. These are in fact amounts due to the terminated agent in the case of termination of the relation with the Company (for the broker category, indemnities are specified exclusively at the level of CONSAP fund). The right of the Company to offset the indemnity due to the terminated agencies against any debit balance is recognised in Art. 34 of A.N.A. Moreover, Par. 4 deals with the case of withdrawal for just cause. The indemnity is therefore used as form of mitigation of the risk to reduce exposure.

C.4 Liquidity risk

Liquidity risk is the risk of not having the cash needed to meet the commitments taken, on and off-balance sheet, without incurring financial losses deriving from forced sale of assets in the case of adverse developments.

In order to assess the liquidity profile of the Company and its ability to meet commitments without incurring significant losses, also under stressed conditions, specific analyses are carried out; these analyses include the calculation of the liquidity gap between the cash outflows and the cash inflows on maturities up to 12 months, of the cumulated liquidity gap and the liquidity buffer, which includes any contingency instrument, both in normal condition and in scenarios of stress of the technical variables.

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

Expected profits in future premiums
The total amount of the expected profits in future premiums calculated pursuant to Art. 260, Par. 2 of the Delegated Regulation (EU) 2015/35 was equal to €420,644k, of which €370,233k relating to the life business and €50,411k relating to the non-life business.

C.5 Operational risk

Operational Risk is the risk of losses deriving from the inadequacy or malfunctioning of processes, human resources and internal systems, or from external events. Operational Risk includes, from the point of view of the identification and the quantitative evaluation, legal risk, compliance risk (non-compliance with laws and regulations) and IT risk, while it does not include strategic and reputational risk.

As an integral part of the Internal Control and Risk Management System, the risk management system for Operational Risk contributes to the achievement of the following high-level targets:

- to preserve the assets of the Company, ensuring that the exposure to Operational Risk is consistent with the Risk Appetite specified;
- to improve the overall efficiency of the processes ensuring that Operational Risk is identified, measured, controlled and managed according to methodologies specified and consistent within the Group.

The Company calculates the capital requirement for Operational Risk by using the Standard Formula specified in the Delegated Regulation (EU) 2015/35.

In the period subject to analysis, no substantial changes were made to the measures used to assess risks.

We provide below the capital requirement for Operational Risk calculated by using the Standard Formula for 2019 and the comparison with the SCR relating to 31 December 2018.

Operational SCR standard formula

Amounts in €k

Risk module	Operational SCR 2019	Operational SCR 2018	Change on 2018
SCR Operativo Remaining part	475,493	477,961	(2,469)
SCR Ring Fenced Fund	25	42	(17)
Operational SCR	**475,518**	**478,003**	**(2,485)**

With respect to the solvency requirement at 31 December 2018, there was decrease of -€2,469k in the Operational SCR Remaining part, primarily due to the decline in the value of best estimates.

The identification of Operational Risk is based on the collection of information on potential or historical events from all significant sources of information, consistently classified, to represent and feed on an ongoing basis a global Operational Risk database.

The activity of identification consists in the collection of the largest information set possible on the risk event and its possible cause and effects, to increase the knowledge of the specific exposure of the different corporate areas. This activity has also the objective to assess the suitability of the controls and identify the best management solutions to any issue identified.

The collection of business expert opinions, through the RSA (Risk Self Assessment), takes place through interviews of process managers carried out to identify and assess the potential Operational Risk events that may occur within a process, as well as to obtain an assessment of the suitability of the system of controls and identify the best management solutions to any issue identified.

The information gathered through the RSA includes an estimate of the possible financial impact of the risk event and an estimate of the relative expected frequency of occurrence on an annual basis. This estimate also takes into account any historical Operational Risk event actually occurred, with the corresponding loss incurred.

The information gathered on the Operational Risk events is classified using the cause - event - effect framework, to provide a truthful description of the chain of events that have produced the financial impact from the risk event.

The stages in which the activities of identification of the Operational Risk may be divided may be summarised as follows:

- analysis of the processes, verification of applicable laws and regulations and collection of the information deriving from previous analyses or analysis carried out by the control functions;
- identification of the possible Operational Risk events, possible causes and controls in place;
- verification of the completeness of the analysis with respect to the Event Type model[22];
- validation of the data gathered and control of the quality of the analysis carried out.

Within Operational Risk, a significant risk is continuity risk, or defined as the risk of a suspension of corporate processes, as a result of disaster.

To this purpose, the Group has acquired an Operating Continuity Policy, which sets guidelines on operating continuity, to reduce to a minimum the impact of disaster events on the significant services, whether resulting from events at the sector, corporate, local or global level (Business Continuity Management System).

C.6 Other material risks

With regard to the other risk categories, the Company identifies as material the following categories of risk:

- Emerging risks, strategic risk and reputational risk With regard to emerging risks, strategic risk and reputational risk, within the dedicated structure present within the Risk Management Function, a dedicated Observatory was created at Group level, called "Reputational & Emerging Risk Observatory", whose key elements are the involvement of an interfunctional Technical Panel and of all the main Business Departments, the use of a consolidated predictive model and methodologies based on futures studies to ensure a forward-looking view of the medium/long-term in order to anticipate the risks and future opportunities, and a holistic approach aimed at grasping and governing the interconnections, both in reading the external context for an integrated vision of the different emerging macro trends (social, technological, political and environmental), and in the internal response for a unified view of the different corporate areas and of the different steps of the value chain.
  The purpose of the Observatory is to assure effective monitoring of emerging risks, strategic risk and reputational risk, verifying the constant alignment between stakeholders' expectations and the Group's responses and anticipating the most significant phenomena to catch new business opportunities and prevent potential emerging risks.
  Strategic risk is controlled at Group level through the monitoring of Strategic Plan drivers to verify any deviation from the defined scenarios, also using scenario analysis with the aim of strengthening the resilience of Group strategy in an external context characterised by accelerating change, with growing levels of complexity and uncertainty.

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[22] The Event Type model consists of a classification of risk events based on the banking perimeter model specified by Basel II.

With specific reference to the reputational risk, within the frame of the Observatory, a Reputation Management framework was developed at the Group level, which operates in the dual mode of construction and protection of the reputational capital, through two work sites that rely on dedicated corporate competencies and structures in a path of constant mutual alignment, under the joint leadership of the "Corporate Communication and Media Relations" and "Risk Management" functions, with the goal of stably integrating these assets in the strategic planning processes.
The level of awareness reached within the Group on the growing importance of reputation as leverage for business and distinctive market positioning in 2019 led to the definition of an integrated governance model for Reputation, operational from 2020, which envisages the setup of corporate bodies dedicated to the proactive management of the Group's reputation in terms of both building and protection, such as the Operational Reputation Management Team and the Reputation Network, and the launch of a widespread system for reporting reputational warnings involving all the Group managers.

– Environmental, Social and Governance (ESG) Risks: ESG risks are those risks deriving from ESG factors, linked to environmental, social and governance issues which are material for the Group and its stakeholders. As part of the ERM Framework, the Group identifies and monitors the ESG risk factors at the level of impact on underwriting risks, in association with investment-related risks, with a view to focusing on risks emerging on environmental, social and governance aspects and in terms of potential impact at reputational risk level. ESG risk control is outlined in the individual risk categories, in such a way as to ensure management at all stages of the value creation process and mitigating any reputational risks associated with ESG risks as they arise. These controls, also designed to prevent exposure concentration to areas and/or sectors significantly exposed to ESG risks, are defined in the management policies for each risk category, where material. With regard to ESG risks, there is a special focus on climate change, identified in the dual components of emerging risk and ESG risk managed along the value chain, with particular reference to underwriting and investment activities. In reference to the climate change risks, the Group has undertaken activities to acquire greater awareness of the potential impacts deriving from changes in the frequency and intensity of catastrophe events, with particular regard to weather events and floods, in order to define the most appropriate mitigation methods. Specific activities are also in progress to integrate climate change scenarios over medium-term horizons into the Group framework of stress tests. The Group has mapped the risks and opportunities of climate change, prepared in accordance with the taxonomy defined by the Task Force on Climate-related Financial Disclosure. This map covers the various stages of the value chain and includes both physical and transitional risks.
– Risk of inclusion in a Group: the risk related to the inclusion in a Group, or "contagion" risk, understood as the risk that, because of the relations of the company with the other companies of the Group, difficulties for one of these companies may have negative effects on the solvency of the company itself; it also includes the risk of conflict of interest. This risk is controlled at the Group level through the policies and procedures that regulate the execution of the transactions with "related" parties, pursuant to the current regulations issued by the supervisory authorities of the sector.
– Compliance Risk: the risk of judicial or administrative sanctions, losses or reputational damages resulting from a failure to observe external laws and regulations or internal regulations such as by-Laws, codes of conduct or corporate governance codes; also risk of unfavourable developments in the legislative framework or case law decisions. The Compliance Function assesses the suitability of the organisation and the internal procedures for the prevention of this risk and sets its level.

In the period subject to analysis, no substantial changes were made to the measures used to assess the risks described above.

C.7 Other information

C.7.1 Sensitivity analysis

To monitor the sensitivity to the risk factors and important events, the Company carried out some sensitivity analyses. Sensitivity analyses on the main economic-financial factors of interest are carried out at least once a year and allow the Company to assess the impact on its Solvency Ratio and Solvency Capital Requirement of changes in the main risk factors to which it is exposed.

We list below the sensitivity analyses carried out, with their description and the results of the analyses in question. The analyses take as Base Scenario the capital adequacy and solvency capital requirement calculated according to the regulatory model adopted by the Company.

Sensitivities

Description	Impact with respect to central scenario	Impact on Solvency Ratio
Shift upward of the interest yield curve	interest rate: +50 bps	0 p.p.
Shift downward of the interest yield curve	interest rate: -10 bps	3 p.p.
Shock on credit spread – corporate bonds	industrial and financial credit spreads: +100 bps	4 p.p.
Shock on equity market	equity market value: -20%	-5 p.p.
Shock on property market	property market value: -15%	-7 p.p.
Sensitivity on Italian Government spread	Italian Government spread: +100 bps	-44 p.p.

Interest rates curve sensitivity analysis
To analyse the impact of a (upward/downward) shock to the yield curve, two sensitivity analyses were carried out on the dynamics of the interest rates curve, more precisely, two single financial factor analyses assessing the impact of an upward and downward parallel shift of the entire yield curve (Euro, Serbia, and rest of the world), a shift respectively equal to +50 bps and -10 bps.

The +50 bps increase in interest rates had no impact on the Solvency II ratio.

The -10 bps decrease in interest rates resulted in an increase of 3% in the Solvency II ratio. This change was caused by:
- a decrease in own funds eligible to cover the SCR of 0.3%;
- a decrease in the total capital requirement of 1.2%, primarily as a result of the decline in the capital requirement relating to the Market Risks module, only partially offset by an increase in Non-Life Underwriting Risks, Life Underwriting Risks and Operational Risks.

Sensitivity on credit spread
To analyse the impact of a shock to the spread, a sensitivity analysis is carried out, by assessing the increase in all industrial and financial credit spreads, for all rating classes, all issuers in the portfolio, and all rankings (senior and sub), equal to +100 bps.
For the purposes of the calculation of the sensitivity in question, we estimated the value of the Volatility Adjustment following the shock to the spreads.

The +100 bps increase in industrial and financial credit spreads resulted in an increase of 4% in the Solvency II ratio. This change was caused by:
- an increase in eligible own funds to meet the SCR of 1.1%;
- a decrease in the total capital requirement of 0.1%, primarily as a result of the reduction in the capital requirement relating to the Non-Life and Health Underwriting Risk, Life Underwriting Risk and Operational Risk modules, only partially offset by the increase in the capital requirement relating to the Market Risks module.

Stock market prices sensitivity analysis
To analyse the impact of a shock to equity market prices, a single financial factor sensitivity analysis was carried out, assessing the impact of a downward shock to share prices, equal to -20%.

The decline of -20% in the value of the equity market resulted in a decrease of 5% in the Solvency II ratio. This change was caused by:
- a decrease in own funds eligible to cover the SCR of 3.6%;
- a decrease in the total capital requirement of 2.0%, primarily as a result of the change in the capital requirement relating to the Market Risks module.

Real estate market prices sensitivity analysis
To analyse the impact of a shock to real estate market valuations, a single financial factor sensitivity analysis was carried out, assessing the impact of a downward shock to the value of real estate and real estate funds, equal to -15%.

The decline of -15% in the value of the real estate market resulted in a decrease of 7% in the Solvency II ratio. This variation is primarily determined by the reduction in own funds eligible to cover the SCR of 2.8%; this scenario does not determine significant changes in the total capital requirement (-0.5%).

Sensitivity on Italian Government spread
To analyse the impact of a shock to the Italian Government spread, a sensitivity analysis is carried out, by assessing the increase in the Italian Government credit spread equal to +100 bps.

The +100 bps increase in the Italian Government spread resulted in a reduction of 44% in the Solvency II ratio. At 31 December 2019, the Volatility Adjustment (VA) was 7 bps and a +100 bps increase in the spread did not trigger the national component of the VA. Therefore, the loss on Italian government bonds is not offset by the positive effect deriving from the increase in the discount curve due to the Volatility Adjustment (VA = 11 bps) applied to all Non-Life and Life liabilities.
The change in the Solvency II ratio was due to:

- a decrease in own funds eligible to cover the SCR of 14.6%;
- an increase in the total capital requirement of 1.2%, primarily as a result of the change in the capital requirement relating to the Market Risks and Life Underwriting Risk modules, only partially offset by the change in the requirement relating to the Non-Life and Health Underwriting Risk and Operational Risks modules.

D

VALUATION FOR SOLVENCY PURPOSES

Introduction

The solvency capital requirement envisaged in the Directive is determined as the economic capital that insurance and reinsurance companies must hold so as to guarantee that the “default” event does not occur more than once in every 200 cases or, alternatively, that the companies in question will still be able to honour their obligations, with a probability of at least 99.5%, to contracting parties and beneficiaries in the next twelve months. The capital is assessed on the basis of a balance sheet prepared according to the “Market Consistent” criteria specifically identified in the Regulation. These criteria generally follow the fair value measurement as defined in international accounting standards (IFRS 13), to be determined on the basis of the following hierarchy:

I. prices listed on active markets for the same assets and liabilities;
II. prices listed on active markets for similar assets and liabilities, suitably adjusted to take into account differences compared to the listed assets and liabilities;
III. values taken from internal “Mark to Model” valuation models. The data used in such models must as far as possible be taken from information implicit in the market assessments referred to in the previous points.

Consequently, the Company’s Market Consistent Balance Sheet (MCBS) was prepared in steps as follows:

- restatement of individual assets and liabilities of the Company based on the classification criteria envisaged for completing the QRT S.02.01 (Balance Sheet);
- valuation of the individual assets and liabilities in application of the Regulation criteria, as far as possible consistent with the valuations expressed for the group consolidated financial statements prepared in compliance with IAS/IFRS standards.

The contents of the QRT SE.02.01.16 (MCBS), prepared in reference to 31 December 2019, is provided below. The MCBS shows the valuation of the Company’s assets and liabilities at Market Consistent values (Solvency II Value) compared with the valuation used by the Company to prepare its own financial statements (Statutory Account Value).

Statement of financial position (MCBS) - current values

Assets

Amounts in €k	Solvency II value	Statutory accounts value
Goodwill		92,192
Deferred acquisition costs		77,509
Intangible assets		571,307
Deferred tax assets		473,394
Pension benefit surplus		
Property, plant & equipment held for own use	675,721	597,489
Investments (other than assets held for index-linked and unit-linked contracts)	46,319,634	41,697,636
Property (other than for own use)	1,716,189	1,497,927
Holdings in related undertakings, including participations	3,524,143	4,010,438
Equities	895,424	884,841
Equities - listed	726,320	715,942
Equities - unlisted	169,104	168,899
Bonds	37,196,437	32,532,364
Government Bonds	26,189,556	22,366,267
Corporate Bonds	10,356,009	9,501,710
Structured notes	650,872	664,387
Collateralised securities		
Collective Investments Undertakings	2,762,949	2,660,339
Derivatives	153,498	40,731
Deposits other than cash equivalents	70,995	70,995
Other investments		
Assets held for index-linked and unit-linked contracts	5,625,577	5,625,766
Loans and mortgages	1,347,608	1,347,608
Loans on policies	19,411	19,411
Loans and mortgages to individuals	401,147	401,147
Other loans and mortgages	927,049	927,049
Reinsurance recoverables from:	492,813	639,997
Non-life and health similar to non-life	462,143	609,322
Non-life excluding health	451,475	
Health similar to non-life	10,668	
Life and health similar to life, excluding health, index-linked and unit-linked	30,670	30,676
Health similar to life		
Life, excluding health, index-linked and unit-linked	30,670	30,676
Life index-linked and unit-linked		
Deposits to cedants	10,334	10,334
Insurance and intermediaries receivables	1,283,527	1,283,527
Reinsurance receivables	128,890	128,890
Receivables (trade, not insurance)	113,066	113,066
Own shares (held directly)	2,602	1,847
Amounts due in respect of own fund items or initial fund called up but not yet paid in		
Cash and cash equivalents	393,270	393,270
Any other assets, not elsewhere shown	1,673,870	1,670,441
Total assets	58,066,913	54,724,272

Liabilities

Amounts in €k	Solvency II value	Statutory accounts value
Technical provisions – non-life	11,948,876	13,428,469
Technical provisions – non-life (excluding health)	11,271,130	13,428,469
Technical provisions calculated as a whole		
Best Estimate	10,852,468	
Risk margin	418,662	
Technical provisions - health (similar to non-life)	677,746	
Technical provisions calculated as a whole		
Best Estimate	640,496	
Risk margin	37,250	
Technical provisions - life (excluding index-linked and unit-linked insurance contracts)	28,973,992	24,977,824
Technical provisions - health (similar to life)		
Technical provisions calculated as a whole		
Best Estimate		
Risk margin		
Technical provisions – life (excluding health and index-linked and unit-linked insurance contracts)	28,973,992	24,977,824
Technical provisions calculated as a whole		
Best Estimate	28,783,431	
Risk margin	190,561	
Technical provisions – index-linked and unit-linked	5,644,726	5,641,052
Technical provisions calculated as a whole		
Best Estimate	5,625,294	
Risk margin	19,431	
Other technical provisions		
Contingent liabilities		
Provisions other than technical provisions	397,153	397,153
Pension benefit obligations	87,226	51,081
Deposits from reinsurers	145,201	145,201
Deferred tax liabilities	228,593	72,189
Derivatives	230,061	211,803
Debts owed to credit institutions	1,811	1,811
Financial liabilities other than debts owed to credit institutions	251,965	208,342
Insurance and intermediaries payables	69,081	68,623
Reinsurance payables	46,097	46,097
Payables (trade, not insurance)	84,047	84,047
Subordinated liabilities	2,269,531	2,167,628
Subordinated liabilities not included in Basic Own Funds		
Subordinated liabilities included in Basic Own Funds	2,269,531	2,167,628
Any other liabilities, not elsewhere shown	1,163,375	1,163,297
Total liabilities	**51,541,734**	**48,664,614**
Excess of assets over liabilities	**6,525,178**	**6,059,658**

The following paragraphs illustrate the main differences in assessments for MCBS purposes and financial statements purposes.

D.1 Assets

D.1.1 Valuation criteria

This section illustrates the criteria, methods and models used by the Company to identify and measure assets in the MCBS. Please note that, when not specified otherwise, no changes were made to such criteria, methods and models with respect to those used in the previous year.

Intangible assets

The valuation criteria defined in the Regulation generally envisage that intangible assets are attributed a zero value. Exceptions are intangible assets that can be sold separately from the rest of the Company's assets and for which a price is available on an active market for similar assets. The Company does not hold any assets of this type.

Financial assets and liabilities (excluding participations) and properties

Financial assets and liabilities are measured at fair value on the basis of the hierarchy defined in the Regulation.
The table below summarises the methods to calculate the fair value adopted by the company for the different macro categories of financial instruments, receivables and property. These methods are consistent with the criteria defined by IFRS 13 and with the indications provided by the Parent Company Unipol Gruppo.

		Mark to Market	Mark to Model and other
Financial Instruments	Bonds	"CBBT" contributor - Bloomberg Other contributor - Bloomberg	Mark to Model Counterparty valuation
	Listed shares, ETFs	Reference market	
	Unlisted shares		DCF DDM Multiples
	Listed derivatives	Reference market	
	OTC derivatives		Mark to Model
	UCITS	Net Asset Value	
Receivables			Other receivables (Carrying amount)
Property			Appraisal value

In compliance with IFRS 13, the market price (Mark to Market) is used to determine the fair value of financial instruments, in the case of instruments traded in an "active market".
"Active market" means:

- the regulated market in which the instrument subject to measurement is traded and regularly listed;
- the multilateral trading facility (MTF) in which the instrument subject to measurement is traded or regularly listed;
- listings and transactions performed on a regular basis, i.e. high-frequency transactions with a low bid/offer spread, by an authorised intermediary (hereinafter "contributor").

In the absence of available prices on an active market, valuation methods are used which maximise the use of observable parameters and minimise the use of non-observable parameters. These methods can be summarised in Mark to Model valuations, valuations by counterparty or valuations at the carrying amount in connection with some non-financial asset categories.

Mark to Market valuations
With reference to listed shares, ETFs and listed derivatives, the Mark to Market valuation corresponds to the official valuation price of the reference market.
In relation to bonds, the sources used for the Mark to Market valuation of financial assets and liabilities are as follows:

a) the primary source is the CBBT price provided by data provider Bloomberg;
b) where the price referred to in the previous point is unavailable, an internal scoring model is used, which makes it possible to select liquid and active contributors on the basis of pre-defined parameters.

For UCITS the Net Asset Value is the source used.

Mark to Model valuations
The Company uses valuation methods (Mark to Model) in line with the methods generally used by the market.

The objective of the models used to calculate the fair value is to obtain a value for the financial instrument consistent with the assumptions that market participants would use to quote a price, assumptions that also concern the risk inherent in a particular valuation technique and/or in the inputs used. To ensure the correct separate Mark to Model valuation of each category of instrument, adequate and consistent valuation models must be defined beforehand as well as reference market parameters.

The list of the main models used for Mark to Model pricing of financial instruments is provided below:
Securities and interest rate derivatives:

- Discounted cash flows;
- Black;
- Black-Derman-Toy;
- Hull & White 1.2 factors;
- Libor Market Model;
- Longstaff & Schwartz;
- Kirk.

Securities and inflation derivatives:

- Discounted cash flows;
- Jarrow-Yildirim.

Securities and share, index and exchange rate derivatives:

- Discounted cash flows;
- Black - Scholes.

Securities and credit derivatives:

- Discounted cash flows;
- Hazard rate models.

The main observable market parameters used to perform Mark to Model valuations are as follows:

- interest rate curves for each reference currency;
- interest rate volatility surface for each reference currency;
- CDS spread or Asset Swap spread curves of the issuer;
- inflation curves for each reference currency;
- reference exchange rates;
- exchange rate volatility surface;
- share or index volatility surface;
- share reference prices;
- reference inflation curves.

The main non-observable market parameters used to perform Mark to Model valuations are as follows:

- correlation matrices between exchange rates and risk factors;
- historical volatility;
- benchmark spread curves constructed to assess bonds of issuers for which the prices of the bonds issued or CDS curves are unavailable;
- credit risk parameters such as the recovery rate;
- delinquency or default rates and prepayment curves for ABS-type financial instruments.

Note that, with reference to bonds in those cases when, even on the basis of the results of the Scoring Model, it is not possible to measure an instrument using the Mark to Market method, the fair value is obtained on the basis of Mark to Model type valuations. The different valuation models referred to above are chosen according to the specific instrument characteristics.

For OTC derivative contracts, the models used are consistent with the risk factor underlying the contract. The fair value of OTC interest rate derivatives and OTC inflation-linked derivatives is calculated on the basis of Mark to Model type valuations, acknowledging the rules set in IFRS 13.

As regards OTC derivatives for which there is a collateralisation agreement (Credit Support Annex – CSA) between the Company and the authorised market counterparties, the EONIA (Euro OverNight Index Average) discount curve is used.

As regards uncollateralised derivatives, CVA (Credit Valuation Adjustment) and DVA (Debit Valuation Adjustment) adjustments are made. It should be noted that at year end almost all derivative positions represent collateralised contracts for which CSA agreements are in place with the counterparties involved in the trading.

With reference to unlisted shares for which a market price or an appraisal drafted by an independent expert is not available, valuations are performed mainly on the basis of:

- equity methods;
- methods based on the discounting of future profit or cash flows, i.e. Discounted Cash Flow (DCF) or Dividend Discount Model (DDM), the so-called “excess capital” version;
- if applicable, methods based on market multiples.

As regards unlisted UCITS, Private Equity Funds and Hedge Funds, the fair value is calculated as the Net Asset Value at the recognition date provided directly by the fund administrators.

With reference to properties, the fair value is measured on the basis of the appraisal value provided by independent experts, in compliance with current legal provisions.
For financial assets and liabilities which do not fall into the categories of instruments valued on a Mark to Market basis and for which there are no consistent and validated valuation models available for the purposes of measuring fair value, the valuations provided by the counterparties that could be contacted to liquidate the position are used.

<u>Fair value measurement for structured bonds and structured SPV bonds.</u>
The measurement of structured bonds makes use of models consistent with the breakdown into elementary components (host contract and embedded derivatives) and with the risk factor underlying said contract.

For structured bonds, the valuation of elementary components follows the criteria defined above for the calculation of fair value, which makes provision for use of Mark to Market valuation if available, or Mark to Model approach or counterparty price in the case in which the Mark to Market-type price is not available.
Bonds issued by a Special Purpose Vehicle secured by collateral and whose flows paid are generated by an interest rate swap contract in place between the vehicle and the swap counterparty (usually the arranger of the transaction) are considered structured SPV bonds. The measurement of SPV structured bonds requires separate valuation of the following elements:

- collateral issue of the vehicle;
- interest rate swap agreement between the vehicle and arranger;
- any other optional components or CDS agreements included in the vehicle.

For SPV structured bonds the valuation of collateral follows the criteria defined previously for the calculation of the fair value, which make provision for the use of the Mark to Market approach if available, or the Mark to Model approach or the counterparty price in the case in which the Mark to Market type price is not available.
The valuation of the interest rate swap agreement provides for the discounting of future cash flows on the basis of the different discount curves, based on the existence or not of a collateralisation agreement (Credit Support Annex) between the vehicle and swap counterparty. In particular, if the derivative contract is collateralised using available securities included in the SPV's assets, the future cash flows of the interest rate swap agreement are discounted using the EONIA discount curve; while if there is no collateralisation agreement, use is made of CVA (Credit Valuation Adjustment), DVA (Debit Valuation Adjustment) and FVA (Funding Valuation Adjustment), as appropriate.

As regards the valuation of other (non-technical) financial liabilities, the fair value is measured by taking into account the credit rating of the company "at inception", without considering any subsequent changes in the company's credit rating.

Participations

The recognition value of participations[26] in the MCBS is determined on the basis of the following hierarchy:

- prices listed on active markets for the same assets and liabilities;
- percentage interest in the investee's equity determined on the basis of MCBS valuation criteria;
- percentage interest in the investee's equity determined on the basis of international accounting standards, taking into account the measurement criteria for intangible assets;
- internal valuation models.

In particular, pursuant to Art. 13 of the Regulation:

- participations in subsidiaries are measured on the basis of the investor's percentage interest in the equity, determined according to the MCBS preparation criteria adopted by the subsidiary concerned;
- participations in associates and in financial and credit institutions are measured on the basis of the investor's percentage interest in the equity, determined according to IFRS (less any intangible assets of the investee);
- there are no participations in listed companies.

These criteria differ from the valuation method for participations in the Company's financial statements. Based on Italian accounting standards, participations held as long-term must be measured at cost, net of any impairment losses.

Deferred tax assets and liabilities

The deferred tax calculation recognised in the MCBS was performed by applying the criteria identified in international accounting standards (IAS 12), suitably supplemented with the provisions of Articles 20-22 of IVASS Regulation no. 34 of 7 February 2017.

Please note that deferred tax assets the recovery of which does not depend on future profitability have been classified as "Any other assets, not elsewhere shown" as of 2019. This classification was deemed more appropriate than the classification in Deferred tax assets adopted until the previous year, as those assets were considered similar to tax receivables due to the specific tax regulations applicable to them.[27]

[26] The participations are identified by the Regulation and the Directive as investments in associates or subsidiaries or for which the company holds at least 20% of the voting rights or capital.

[27] The regulation provides for a mechanism for conversion into tax receivables:
- of DTAs relating to value adjustments on receivables and misalignments between the carrying amount and tax value of goodwill and other intangible assets, in the case of a statutory loss; and
- of DTAs recognised on tax losses, to the extent to which they originated from decreases connected to value adjustments on receivables and the amortisation of goodwill and other intangible assets.

The regulations are also applicable in the case of the liquidation of companies. The receivable deriving from the transformation of the above-mentioned DTAs may be used to offset with no quantitative or temporal limits, transferred at nominal value to parties belonging to the same group and a refund may be requested for the residual part after offsetting.

Other assets

For all other assets not included in the categories of previous paragraphs, taking into account the related characteristics, the recognition value in the MCBS is consistent with their value determined for the consolidated financial statements and consequently applying IAS/IFRS and any relative updates in such standards to be applied in the current year.
In this regard, note that as of 2019 IFRS 16 entered into force, replacing IAS 17 with reference to the recognition of lease agreements. The main new aspect introduced refers to the accounting method for leases payable, which are no longer divided into finance (contracts whereby the lessee substantially assumes all risks and rewards of ownership of the leased asset) and operating (lease agreements other than finance leases) leases, but are instead subject, with the exception of specific contractual types (e.g., "short term" and "low value" contracts), to a single accounting model similar to that envisaged in IAS 17 for finance leases. For lessee/user companies, this different accounting representation (the "financial method") results in an increase in tangible assets recognised in the MCBS (right-of-use assets, connected to the leased assets) and an increase in liabilities (the financial debt on the leased assets).

D.1.2 Quantitative information on asset valuation

Intangible assets

In line with the regulatory provisions of the Directive, for solvency purposes the Company does not assign a value to goodwill, or to other intangible assets, as a listing of similar assets on an active market is not available.

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Goodwill		92,192	(92,192)
Deferred acquisition costs		77,509	(77,509)
Intangible assets		571,307	(571,307)
Total		741,007	(741,007)

Following the necessary adjustments to the three items indicated above in the MCBS, the Company recorded a decrease in shareholders' equity in the financial statements for €741,007k, gross of related tax effects.

Land, buildings and other tangible fixed assets

Land and buildings were recognised in the MCBS at fair value, determined on the basis of expert independent appraisal reports. The value recognised in the Company's financial statements corresponds to the purchase cost, adjusted if necessary for any legally required revaluations, any merger surplus or deficit and any impairment losses, net of depreciation.

Tangible assets

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Property, plant & equipment held for own use	675,721	597,489	78,232
Property (other than for own use)	1,716,189	1,497,927	218,261
Total	2,391,910	2,095,417	296,493

The increase in the value of tangible assets of €296,493k compared to the financial statements for the year, gross of tax effects, relates to the fair value measurement of real estate for €256,711k and the impact of the application of IFRS 16 for €39,782k.

Note that in reference to other tangible assets (e.g. equipment, plant, machinery and vehicles), the recognition value in the MCBS is consistent with the recognition value in the financial statements which, given the nature and significance of such assets, was considered an adequate representation of the fair value.

Financial assets for which investment risk is borne by policyholders

The MCBS item "*Assets held for index-linked and unit-linked contracts*" includes all the financial assets in class D of the balance sheet of the financial statements, which correspond to the financial assets for which investment risk is borne by the policyholders (unit-linked, index-linked and pension funds).

Financial assets when the investment risk is borne by policyholders

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Assets held for index-linked and unit-linked contracts	5,625,577	5,625,766	(189)

These assets were also measured at fair value in the financial statements. The difference recognised is due to the fact that, in the financial statements, the fair value measurement method used for financial instruments classed as unit-linked was consistent with the valuation of liabilities payable to the policyholders and the NAV for unit-linked products. This fair value measurement method for financial assets differs slightly to that used for the purpose of MCBS preparation. Also considering that for preparation of the MCBS the valuation of financial assets classed as unit-linked is in any event fully consistent with the measurement criteria for the corresponding liabilities to the policyholders, the slight differences in fair value measurement methods have no appreciable impact on the total difference between assets and liabilities in the MCBS and in the financial statements.

Other investments (excluding participations)

As a general principle, all investments are measured at fair value as required by the Directive, unlike in the Company's financial statements in which the values are determined as follows:

- for investments classed as long-term, at purchase cost net of any impairment losses;
- for other investments, at the lower between the purchase cost and the present value determined on the basis of market trends.

With reference to investments formed by deposits with financial institutions ("*Deposits other than cash and cash equivalents*") and by "*Loans and mortgages*", the recognition value in the MCBS is consistent with the recognition value in the financial statements which, given the nature and significance of such assets, was considered an adequate representation of the fair value.

Other financial investments

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Equities	895,424	884,841	10,582
Equities - listed	*726,320*	*715,942*	*10,378*
Equities - unlisted	*169,104*	*168,899*	*205*
Bonds	37,196,437	32,532,364	4,664,073
Government Bonds	*26,189,556*	*22,366,267*	*3,823,289*
Corporate Bonds	*10,356,009*	*9,501,710*	*854,299*
Structured notes	*650,872*	*664,387*	*(13,516)*
Collateralised securities			
Collective Investments Undertakings	2,762,949	2,660,339	102,610
Derivatives	153,498	40,731	112,767
Deposits other than cash equivalents	70,995	70,995	
Other investments			
Loans and mortgages	1,347,608	1,347,608	
Loans on policies	19,411	19,411	
Loans and mortgages to individuals	401,147	401,147	
Other loans and mortgages	927,049	927,049	
Total	42,426,910	37,536,879	4,890,032

Taking into consideration that the statutory criteria (applied to the financial statements) are typically more prudent, the Company recorded an increase in assets by €4,890,032k in the MCBS compared to the financial statements, gross of the related tax effect.

Participations

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Holdings in related undertakings, including participations	3,524,143	4,010,438	(486,295)

The different methods for calculating the value of Participations led to a decrease in assets by €486,295k in the MCBS compared to the financial statements, gross of the related tax effect.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the MCBS and their value recognised for tax purposes.

Deferred tax assets and liabilities

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Deferred tax assets		473,394	(473,394)
Deferred tax liabilities	(228,593)	(72,189)	(156,404)
Net total	**(228,593)**	**401,205**	**(629,798)**

The differences compared to the financial statements are associated with the deferred tax effect of temporary differences deriving from adjustments to the asset and liability valuations commented in paragraphs D.1, D.2 and D.3.
The following summary table provides a breakdown of deferred tax assets and liabilities recognised in the MCBS by nature of the temporary difference leading to their recognition and an indication of the time horizon forecast for reversal of the temporary differences.
At the reporting date there are no tax losses eligible to be carried forward or unused tax credits and consequently the corresponding deferred tax assets have not been recognised.

Nature of temporary differences and reversal expectations

Amounts in €k

Breakdown deferred tax assets/(liabilities) recognised in the MCBS for nature of the temporary differences	IRES	IRAP	Time horizons expected for the reversal of the temporary differences
Intangible assets (released goodwill)	72,806	19,753	The item consists mainly of the benefit deriving from the release of the goodwill implied in the carrying amount of the participations, the reversal of which is expected in 10 years from 2020 (due to the amendment introduced by the 2020 Stability Law).
Intangible assets (other intangible assets)	(13,877)	13,319	The item consists of intangible assets that are not included in the MCBS. The reversal of the temporary difference, excluding early disposal, is related to the amortisation of intangible assets, the amortisation of which is expected on average in 3-5 years.
Real estate and tangible assets held for own use and for investment	21,004	14,674	The temporary differences will be reversed through the annual amortisation or on the disposal of the asset. This item includes of the realised capital gains, spread out pursuant to Art. 85, Par. 4 of Consolidated Income Tax Law (TUIR), for an amount equal to €42,745k.
Other financial investments (debt instruments)	(1,149,658)	(314,999)	The temporary differences relative to the bonds will be reversed gradually as the maturity approaches or to the disposal of the securities. This item includes realised capital gains, spread out pursuant to Art. 85, Par. 4 of TUIR, for an amount equal to €23,350k. The average duration of the bond portfolio of the Company is 3.91 years for Non-Life Business and 7.64 years for Life Business.
Other financial investments (equity instruments and UCITS)	(43,343)	(16,208)	The temporary differences relative to the equity instruments and UCITS will be reversed with the disposal of the securities.
Non-Life net technical provisions (claims provision changes)	121,987		The temporary differences deriving from the upward adjustments for increases of the provisions will be reversed in compliance with the provisions of Art. 111 Par. 3 of TUIR (18 years for the years up to 2014 and 5 years from 2014).
Non-Life net technical provisions (IFRS and SII adjustments)	(319,554)	(90,807)	The temporary differences deriving from the adjustments between financial statements and MCBS will presumably be reversed gradually with the release of the corresponding technical provisions. The average duration of Non-Life technical provisions is of approximately 2.8 years.
Life net technical provisions (provision changes)	18,567		The temporary differences deriving from the upward adjustments for increases of the provisions will be reversed in compliance with the provisions of Art. 111 Par. 1-bis of TUIR.
Life net technical provisions (IFRS and SII adjustments)	958,060	272,249	The temporary differences deriving from the adjustments between financial statements and MCBS will be reversed presumably gradually with the release of the corresponding technical provisions. The average duration of the Life technical provisions is of approximately 9 years.
Financial liabilities	24,457	6,950	The reversal differences will take place in compliance to the residual life of the loans (excluding early repayment if the financial and regulatory conditions were met).
Provisions for risks and charges	103,888		The reversal of the differences is related to the actual incurring of the expected charge, which is difficult to forecast since its timing cannot be influenced by the Company.
Receivables	3,093		The reversal of the temporary differences derives from the application of Art. 106 Par. 3 (time horizon 10 years according to the percentages set by this article).
Other assets and liabilities	66,499	2,546	Residual item for which it is reasonable to assume a reversal period of 2 years maximum.
Total	(136,070)	(92,523)	

Other assets

The differences recognised between other assets in the MCBS and their corresponding valuations in the financial statements are provided below.

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Pension benefit surplus			
Deposits to cedants	10,334	10,334	
Insurance and intermediaries receivables	1,283,527	1,283,527	
Reinsurance receivables	128,890	128,890	
Receivables (trade, not insurance)	113,066	113,066	
Own shares (held directly)	2,602	1,847	755
Amounts due in respect of own fund items or initial fund called up but not yet paid in			
Cash and cash equivalents	393,270	393,270	
Any other assets, not elsewhere shown	1,673,870	1,670,441	3,429
Total	3,605,559	3,601,375	4,184

The difference in the value of own shares is attributable to the valuation of the Company's shares at listed price in the MCBS compared to that established for the financial statements, in which they have to be represented at purchase cost and deducted from shareholders' equity.
In reference to the other assets in the above table, the book value in the MCBS is consistent, except for some irrelevant differences, with the book value in the Financial Statements which, given the nature and significance of such assets, was considered an adequate representation of the fair value.

D.2 Technical provisions

D.2.1 Valuation criteria

Please first of all note that, when not specified otherwise, no changes were made to the valuation criteria, methods and models with respect to those used in the previous year.

In accordance with the Directive, the Solvency II technical provisions (Life and Non-Life) are calculated as the sum of the Best Estimate of Liabilities (BEL) and a Risk Margin.

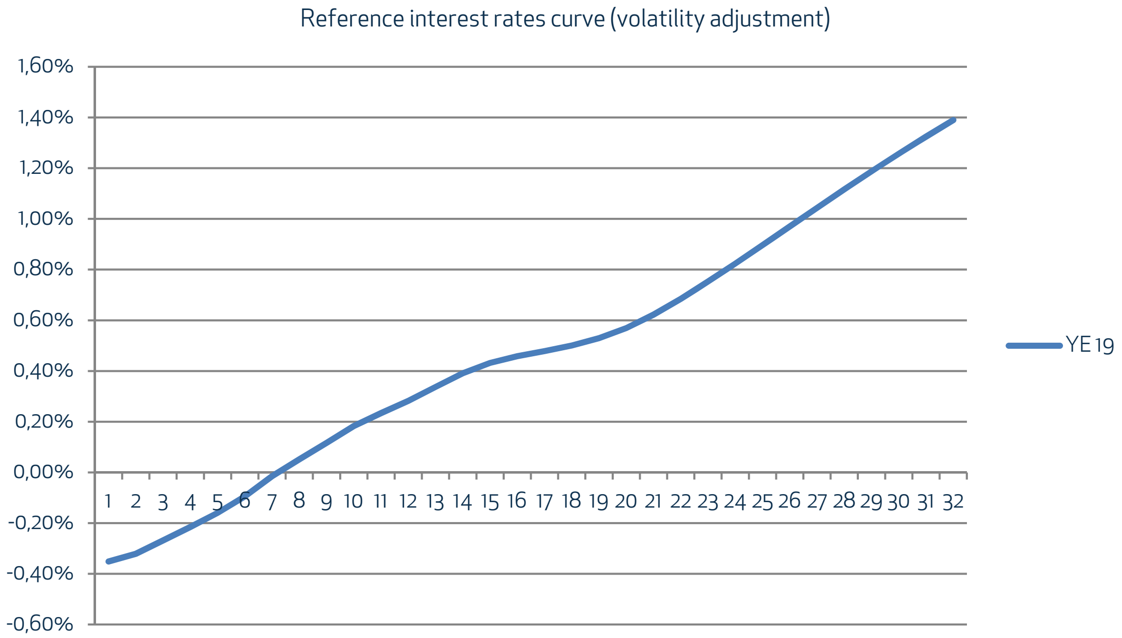
The main difference compared to the current applicable regulations for the preparation of the financial statements (see ISVAP Regulation no. 22 of 4 April 2008, subsequently amended and supplemented), which establishes that the valuation must be carried out in accordance with the criteria of prudence, is represented by the adoption of a "market" value. The value of the technical provisions, in fact, must correspond with "*the amount that an insurance or reinsurance company would have to pay if its contractual rights and obligations were immediately transferred to another company*".

In this sense, the risk margin assumes the meaning of risk premium or, in actuarial terms, safety loading, whereas the prudence is included in the retention of an adequate level of capital.

These principles are satisfied in the adoption of a Discounted Cash Flow (DCF) method for the BEL valuation, eliminating all forms of prudence (e.g. final cost valuation for claims provisions, inclusion of provisions for unexpired risks and supplementary provisions for the premium provision) and including - in the valuation - all variables that could affect the amount of future cash flows.

The BEL corresponds to the present estimated value of future cash flows calculated on the basis of the relevant due dates structure of risk-free interest rates, taking into account the volatility adjustment referred to in Art. 77-quinquies of the Directive.

The due dates structure of reference rates used in the valuations is illustrated below:



The curve was formed on the basis of the following market benchmarks published by EIOPA:

- Last liquidity point: 20 years
- Ultimate long-term forward rate: 3.90%
- Convergence period: 40 years
- Method: Smith-Wilson
- Volatility adjustment: 7 bps
- Credit Risk adjustment: 10 bps

Best Estimate Liability Non-Life

The Best Estimate Liability, equal to the sum of the claims BEL and premiums BEL, was calculated in accordance with the principles stated in the regulation, by applying suitable statistical/actuarial models and net of amounts recovered from the policyholders and from third parties for the portion not already recognised as assets in the balance sheet.

The calculation of the claims BEL is structured on a comparison between the final cost results deriving from the application of a Chain Ladder Paid model to the amounts gross of all deductions or discounts (Mack method with the option of expert judgement in the choice of certain growth factors) and the values of provisions in the Financial Statements. In particular, a confidence range is determined by assuming a log normal distribution benchmarked, respectively, to the final cost obtained from the model and the coefficient of variation obtained from application of the Mack closed formula. If the Local GAAP claims provision falls within this range, the two values are aligned. If not, the final cost obtained from the model is confirmed. Subsequently, the deduction component (recoveries) and discounted cash flow component are added to the model.

For the "Credit and Suretyship" and "Marine Aviation and Transport" businesses, the statistical/actuarial models were applied, but in view of the business type the documented analysis was considered more reliable (inventory reserve). Consequently, for these lines the calculation of the claims BEL was founded on provisions recorded in the Financial Statements, suitably discounted on the basis of the estimated growth in future payments over time. A similar approach was also adopted for the "Assistance" business, in light of the very high speed of settlements in this LoB and the stability of the phenomenon of claims incurred but not reported. Also for the non-proportional reinsurance LoBs, characterised by minimal volumes marginal to proportional direct and indirect business, so much so as to not allow sufficient qualitative data to be collected for the application of actuarial or statistical methods, the same simplified approach was used, also assuming that payments are all made in the year subsequent to the valuation date.

The premiums BEL was calculated on the cash flows obtained from the projection of the Company's historic ratios (loss ratio and expense ratio, estimated by considering an average for the last three/four years, or in certain cases the growth trend), applied to the existing portfolio values at the time of valuation, separately for each business line. The cash flows take into account all the items, incoming and outgoing, generated by the combination of future premiums, claims not yet received, allocated and unallocated settlement expenses, commissions and administrative expenses deriving from existing contracts. The total liabilities recognised in the financial statements against the provisions for profit-sharing and ageing were considered a reasonable estimate of the corresponding liabilities for recognition in the Market Consistent Balance Sheet (MCBS). These provisions were also recorded in the premiums BEL.
For non-proportional reinsurance-related LoBs, the premiums BEL was calculated on the assumption that all payments were concentrated on the first due date after the valuation date (a conservative assumption in that it minimises the impact of cash flow discounting) and the estimated combined ratio was 1 ("neutral" assumption compared to the valuation of estimated profits generated by the premium provision).

The comparison between Non-Life technical provisions measured for the Market Consistent Balance Sheet and those calculated for the financial statements shows different approaches relating to the assumptions adopted for the calculation and the underlying risks. The main differences between the two regulatory regimes are summarised below:

	Solvency II	Local GAAP
Valuation approach	Matching adjustment concept + explicit Risk Margin	Prudent assumption concept
Time value of money	Discounted cost	Final cost
Handling of recoveries	Net recoveries	Gross recoveries

As the Best Estimate Liability is a present value of estimated future cash flows, it is by definition an estimate subject to uncertainty in the final cost projection and in the assumed due dates structure for interest rates. In order to assess the main sources of uncertainty in the BEL calculation, a number of sensitivity analyses were carried out. The following, for example, shows the change in BEL as the interest rate structure changes.

BEL (Net of reins.) - Discount curve sensitivity analysis

Amounts in €k	Claims BEL	Premiums BEL	Total
Curve - 2018 - without VA	(0.79%)	(0.74%)	(0.78%)
Curve - 2019 - basic	(1.44%)	(1.33%)	(1.41%)
Curve - 2019 - without VA	0.20%	0.18%	0.19%
Curve - 2019 - basic	8,617,215	2,413,606	11,030,821
Curve - 2019 - basic +1%	(2.71%)	(2.49%)	(2.66%)

Compared to the curve used, a volatility adjustment of zero would lead to an upward change in BEL by around 0.19%. A 1% increase in the curve would result in a reduction of approximately 2.66%. Lastly, if the curve remained unchanged compared to 31 December 2018, the BEL would be lower by around 1.41%.

Best Estimate Liability Life

The Life BEL valuation method uses an ALM-type stochastic approach which allows an integrated "fair value" measurement of assets and liabilities.

As regards revaluable products, associated with returns of Segregated Funds, the typical quantities are projected at "point" level deriving from the non-destructive aggregation of information on individual policies that have the same characteristics, including the Company's technical and actuarial assumptions and also making use of standard stochastic simulation approaches for the financial variables.

ALM logic simulates the actions performed by the Company based on the future growth of amounts representing the policies portfolio (liabilities) and the underlying portfolio of financial securities (assets). In the specific case of products with performances that can be revalued in terms of returns of Segregated Funds, ALM logic envisages a circuitry that can be summarised in the following logical steps, repeated for every instant on the reference time horizon (monthly or annual):

- calculation of the returns for every Segregated Fund, according to the rules envisaged in the Segregated Funds regulations;
- revaluation of the benefits provided to the policyholders based on the returns calculated in the previous step;
- calculation of the net balance of liability items: tariff premiums collected - benefits - operating expenses for the period on the securities portfolio.

If the balance is negative, the model draws upon the liquidity in the assets portfolio, and if this is still not sufficient to cover commitments to the policyholders, the sale of financial securities in the portfolio is arranged, with subsequent gains/losses realised with an impact on returns of Segregated Funds for the next instant and therefore on subsequent indexed benefits.

In the projection, the model also makes use of information related to "management actions", which translates into suitable conditioning factors for the simulation process, the strategic guidelines for financial portfolio management used by the Company. Taking into account the structure of the policies portfolio and the underlying assets portfolio, forecasts of financial market performance, but above all coherence with the Company's strategic guidelines, the management actions are defined by the Board of Directors based on the proposal from the Finance Department in concert with the Risk Management Function. It should be emphasised that the management actions are implemented in terms of asset allocation target and returns target. If in the values projection (for every instant on the reference time horizon) the asset allocation and returns targets assume values different from those defined, financial security purchase and sale mechanisms are triggered to bring the returns and/or asset allocation back to the defined levels. This obviously involves realising gains/losses that have an impact on the returns recognised to the policyholders. In addition, at the end of each year the "financial statement restriction control" is carried out, or the realignment, for each financial portfolio, of the carrying amount of the securities with the amount of the mathematical provision increased by a predefined percentage for each account and representative of "over-coverage" (or the excess of assets with respect to liabilities which usually occurs in operations) through: (i) the realisation, at current market values, of the excess share of assets, if the carrying amount of the assets is higher than the mathematical provision plus the target over-coverage percentage or (ii) the injection of liquidity if, vice versa, the mathematical provision, plus the target over-coverage percentage, exceeds the carrying amount of the assets and it is necessary to restore the minimum level of coverage as per regulations in force.

The comparison between Life technical provisions measured for the Market Consistent Balance Sheet and those calculated for the financial statements shows different approaches relating to the assumptions adopted for the calculation and the underlying risks. Deviation between the two quantities is particularly significant for tariffs envisaging benefits linked to the performance of segregated funds (i.e. revaluable).

In the financial statements, the provisions for such tariffs are calculated using methods consistent with ISVAP Regulation no. 22 of 4 April 2008, as subsequently amended and supplemented, which envisages that if the companies assess the assets representing provisions using the purchase cost method, a valuation of technical provisions using the discounted cash flow method is sufficiently prudent as, in considering future commitments, this uses the same technical bases adopted for calculating the premium. The provisions calculated in this manner are supplemented with "integrative" or "additional" provisions calculated on the basis of consolidated methods according to best practices or recommended by the Supervisory Authority, if the primary technical bases - financial and non-financial - prove unsuitable to meet the Company's future obligations. Overall, the financial statements approach to calculation of the Life technical provisions does not allow full expression of the cost of financial guarantees granted to the policyholders, or a possible unfavourable development in the options granted to the policyholders.

The Life BEL is instead determined in reference to a balance sheet in which all assets are measured at fair value, i.e. are directly associated with financial market performance. As previously mentioned, the BEL is calculated by discounting estimated cash flows at the valuation date using the most recent technical and financial assumptions. The distribution of the probability of estimated cash flows is obtained in a risk-neutral environment (thereby removing any subjective prudence) and, in addition to the event of death, takes into consideration the policyholders' behaviour by adopting the probability of surrender and the exercise of any options granted to the policyholders. Based on specific requirements of the regulations, the valuation also takes into consideration the financial guarantees of returns granted to the policyholders.

The projected insured capital is revalued on the expected returns of the portfolios, obtained through Montecarlo simulation models, i.e. simulating the returns of funds underlying the insurance contract. For this purpose an Economic Scenario Generator (ESG) is used, which makes use of specific projection models for sources of market risk and which is also adopted to measure the Life Underwriting risks. This approach allows the inclusion in technical provisions of a valuation of the cost of financial guarantees and options, if any.

For the valuation of all products in the portfolio, standard approaches were used for the stochastic simulation of the financial variables.

In addition to the economic assumptions described previously, the calculations of Solvency II technical provisions are also based on a series of operating assumptions relating mainly to:

- Development of biometric risk factors (mortality, longevity);
- Operating expenses;
- Exercise frequency of options granted to the customer (surrender, withdrawal, conversion to annuity, maturity deferral, additional payments, reduction, interruption of payment of recurring single premiums).

These assumptions are determined as the best possible estimate at the valuation date on the basis of the Company's historic experience, if available, or of appropriate market benchmarks.

For many reasons, normally associated with the unavailability of all the necessary detailed and/or series of information which proves inefficient for tariffs with immaterial portfolio volumes, a part of the Company's portfolio is not accurately modelled in the actuarial platform adopted for the projection of cash flows. However, it is included in the overall estimation of the Company's BEL, albeit approximately, through assimilation with products in the same sub-portfolio of reference, accurately assessed by the actuarial platform. The percentage of the portfolio not accurately modelled, subject to simplified valuation, is less than 1%.

The description provided above is the main simplification adopted in the Life BEL calculation.

In order to assess the main sources of uncertainty in the BEL calculation, a number of sensitivity analyses were carried out on the main scenarios affecting the financial and non-financial value. Each valuation was performed by keeping all other scenarios unchanged, including the management actions.

It should be emphasised that the scenarios subject to sensitivity analysis are often correlated, and therefore it is unlikely that the impact of two events occurring simultaneously would be the sum of the impacts of the two respective sensitivities.

The following table illustrates the sensitivity analyses of the Life BEL, recorded in the MCBS at 31 December 2019 as €34,408,726k, with related descriptions expressed as the percentage change in the total.

Sensitivity	Sensitivity description	
IR -20bps	Downward shift of 20 basis points of the risk-free curve	1.66%
IR +20bps	Upward shift of 20 basis points of the risk-free curve	(1.60%)
EQ -20%	20% decrease of equity market value	(0.74%)
EQ +20%	20% increase of equity market value	0.79%
Spread +50bp	Increase of 50 basis points of the spread	(0.99%)
Spread -50bp	Decrease of 50 basis points of the spread	1.44%
Surrenders -50%	50% decrease of redemption rates (multiplier factor, ie 50% of the best estimate redemption assumption)	1.01%
Surrenders +50%	50% increase of redemption rates (multiplier factor, ie 150% of the best estimate redemption assumption)	(0.78%)
Mortality +15%	15% increase in mortality (multiplication factor, i.e 115% of death probabilities is considered)	(0.18%)
Mortality -20%	20% drecrease of mortality (multiplier factor, i.e. 80% of death probabilities is considered)	0.31%
Expenses +10%	10% increase of management costs and 1% increase of the expected inflation rate	0.30%
No volatility adjustment	Reduction of the reference rate curve equal to the amount of volatility adjustment	0.41%
No Over-coverage	Cancellation of the over-coverage constraint in the application of the budget constraint (see next point)	0.01%
No FS restrictions	Cancellation of the budget constraint	(0.11%)
No yeld target	The management rule for targeting a performance for each projection year is deactivated	0.06%

The sensitivity with the greatest impact on the BEL is that relating to a 20 bps change in the reference rate curve. In particular, the 20 bps decrease in the reference curve entails an increase of 1.66% in the total BEL.
The sensitivity analysis of the technical variables instead has more limited changes, however one of which is the potential increase in BEL (+1.01%) if there is a significant decline in surrenders.

The cancellation of financial statement restrictions and likewise cancellation of the operating rule concerning target returns in this economic scenario has a rather limited impact on the BEL total.

Technical Provisions - Reinsurers' share

NON-LIFE

Calculation of the reinsurers' share of provisions for the Non-Life and Health businesses was performed by applying - on direct and indirect business volumes ceded - the results obtained for the gross direct business, and then estimating losses due to reinsurance counterparty default calculated on the basis of the volumes of provisions divided into reinsurer rating classes using the probability of default (PD) and loss given default (LGD) estimated by the Company.

In particular:

- the claims BEL for premiums ceded was calculated by applying to the corresponding financial statements aggregate the ratios between the BEL and financial statements provisions and the breakdown of provisions patterns estimated - for each business segment - on the gross premiums figures;
- the premiums BEL for premiums ceded was calculated using the loss ratios (net of indirect settlement expenses), withdrawal rates and the time allocation percentages estimated on gross premiums figures.

LIFE

As regards the calculation of the reinsurers' share of provisions for the Life business, note that in view of the reduced ceding of Life business through the reinsurance channel it was not necessary to develop a specific BEL valuation of the reinsurers' share, which was therefore approximated with the reinsurers' share of provisions indicated in the Company's financial statements, to which an adjustment was made to take into account the probability of default of the reinsurer. Again in consideration of the very limited volumes, the same approach is applied to the BEL for indirect business.

Methodology of valuation of the Risk Margin

The Risk Margin represents the cost of holding an amount of eligible own funds equal to the Solvency Capital Requirement (SCR) needed to support insurance and reinsurance obligations assumed throughout their contractual life.

The method adopted involves calculating the Risk Margin, separate and diversified for Non-Life and Life business, so as to take into account the specific features of the two businesses, and calculating the total Risk Margin as the sum of the figures indicated previously.

The Risk Margin is calculated on the basis of the following input data:

- SCR related to operational risk;
- SCR related to credit risk;
- SCR related to Non-Life and Health underwriting risks (including CAT risk) or Life underwriting risks quantified according to the different risk assessment methods;
- SCR related to Ring Fenced Funds;
- settlement speed estimate for the best estimate component of technical liabilities;
- risk-free rate curve.

To estimate the Solvency Capital Requirement for future instants, the simplified method number 2 described in the EIOPA document "Guidelines on technical provisions valuation" (no. 62), which envisages the option of approximating the SCR for all future years based on the ratio between the BEL for each future year and the BEL at the valuation date.

D.2.2 Quantitative information on the valuation of the technical provisions

Non-Life technical provisions

The MCBS recognition value of Non-Life technical provisions corresponds to their fair value determined using the methods described above in paragraph D.2.1.

The values of Non-Life technical provisions broken down by line of business (LoB) are illustrated below.

Segmentation of Non-Life technical provisions by Line of Business

	Amounts in €k	Best estimate (gross)	Risk Margin	Recoverable amounts from reinsurance	Total
	Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	11,477,916	453,268	(462,143)	11,469,041
1	Medical expense insurance	138,623	9,418	(713)	147,328
2	Income protection insurance	501,544	27,818	(9,955)	519,407
3	Workers' compensation insurance				
4	Motor vehicle liability insurance	5,738,971	172,722	(45,354)	5,866,339
5	Other motor insurance	421,033	17,336	(15,795)	422,575
6	Marine, aviation and transport insurance	73,204	3,426	(18,206)	58,424
7	Fire and other damage to property insurance	1,378,580	60,990	(144,772)	1,294,798
8	General liability insurance	2,671,372	116,920	(53,000)	2,735,292
9	Credit and suretyship insurance	353,867	30,849	(133,679)	251,037
10	Legal expenses insurance	83,705	4,642	(39,769)	48,578
11	Assistance	78,151	4,688	(6)	82,833
12	Miscellaneous financial loss	38,865	4,460	(895)	42,430
	Line of business for: accepted non-proportional reinsurance	15,048	2,644		17,692
13	Non-proportional health reinsurance	329	15		343
14	Non-proportional casualty reinsurance	9,013	2,431		11,444
15	Non-proportional marine, aviation and transport reinsurance	451	14		465
16	Non-proportional property reinsurance	5,256	184		5,440
	Total	11,492,964	455,912	(462,143)	11,486,733

At 31 December 2019 there were no amounts recoverable from SPVs.

The following table summarises the differences in value found between the valuation for Solvency purposes and the valuation for the Company's financial statements in Non-Life technical provisions (direct and indirect business), net of amounts ceded to reinsurers.

Non-Life technical provisions

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Technical provisions - Non-life	11,948,876	13,428,469	(1,479,593)
Other technical provisions		-	-
Reinsurance recoverables from: Non-life and health similar to Non-life	(462,143)	(609,322)	147,179
Total	11,486,733	12,819,148	(1,332,415)

For further information on the existing differences between the technical provisions calculation methods for the non-life segment for the Solvency Capital Requirement and that recorded in the financial statements, reference should be made to the comments in paragraph D.2.1 above.

The overall difference between the Technical Provisions in the financial statements and the Solvency II value, net of reinsurance, amounts to €1,332m. Note that the SII technical provisions value does not include equalisation provisions (€79m) and supplementary provisions (€238m) as these are considered to be of a precautionary/equalising nature.

Net of amounts reversed in relation to these provisions, the difference totals €175m on the Premiums BE and €1,311m on the Claims BE. These effects are partly offset by the addition of the Risk Margin (€455.9m).

Life technical provisions

The MCBS recognition value of Life technical provisions corresponds to their fair value determined using the methods described above.
The values of Life technical provisions broken down by LoB (line of business) are illustrated below.

Segmentation of Life technical provisions by Line of Business

	Amounts in €k	Best estimate (gross)	Risk Margin	Recoverable amounts from reinsurance	Total
	Direct business	34,403,689	209,987	(27,557)	34,586,119
1	Health insurance				
2	Insurance with profit participation	28,851,002	168,299	(24,502)	28,994,800
3	Index-linked and unit-linked insurance	5,625,294	19,431	-	5,644,726
4	Other life insurance	(72,608)	22,257	(3,055)	(53,406)
5	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	-		-	
6	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations				
	Indirect business	5,037	5	(3,114)	1,928
	Total	34,408,726	209,992	(30,670)	34,588,047

The following table summarises the differences in value found between the valuation for Solvency II purposes and the valuation for the Company's financial statements in Life technical provisions (direct and indirect business, net of reinsurance).

Life technical provisions

Amounts in €k	Solvency II Value	Statutory Accounts Value	Difference
Technical provisions - Life (excluding Index-linked and unit-linked)	28,973,992	24,977,824	3,996,169
Technical provisions - Index-linked and unit-linked	5,644,726	5,641,052	3,674
Recoverables from reinsurance: Life and health similar to Life, excluding Health, Index-linked and unit-linked	(30,670)	(30,676)	5
Recoverables from reinsurance: Life Index-linked and unit-linked			
Total	34,588,047	30,588,200	3,999,847

For further details on the existing differences between the technical provisions calculation methods for the life segment for the Solvency Capital Requirement and that recorded in the financial statements, reference should be made to the comments in paragraph D.2.1 above.

For the traditional Life policies segment (excluding index-linked or unit-linked insurance policies), the main source of the difference is the financial impact (summarised in: the level of reference rates vs. guaranteed rates, market volatility and the impact of estimated revaluation of benefits in excess of the guarantee). The remaining differences are largely attributable to:

- the adoption of best estimates relating to estimated mortality levels (against prudent assumptions adopted in the calculation of provisions for the financial statements);
- the modelling of policyholder behaviour expected in the year for the various contractual options offered (surrender, reduction, withdrawal, additional payments, etc.), which are not specifically considered in the calculation of provisions for the financial statements;
- the adoption of operating expense assumptions based on the Company's actual experience (against assumptions adopted in the calculation of provisions for the financial statements, based on "first level" assumptions, i.e. those defined at the tariff pricing stage prior to verification of their sustainability);
- the explicit inclusion of the Risk Margin in the calculation of Solvency II technical provisions not envisaged in financial statements provisions.

The linked policies segment (index-linked or unit-linked), for which provisions are consistent with covering assets are measured at market value in the financial statements, and express instead a figure for Solvency II technical provisions in line with the financial statements provisions.

The Solvency II technical provisions relating to the amounts recoverable from reinsurance, given the low degree of materiality of the total volume, as previously mentioned, were derived on the basis of the value determined for the financial statements, adjusted to take into account expected losses deriving from reinsurer default.

D.2.3 Information on the effects of the application of volatility adjustment

For the fair value measurement of Non-Life and Life technical provisions, the Company has applied the option envisaged in Art. 77-quinquies of the Directive, defined as the volatility adjustment (VA).

The table below summarises the effect that non-application of the VA would have on technical provisions (gross of the effect of reinsurance) on the Solvency Capital Requirement, minimum capital requirement, basic own funds and eligible own funds to cover the minimum capital requirement and Solvency Capital Requirement.

Volatility Adjustment

Amounts in €k	With VA (a)	Without VA (b)	Difference (b)-(a)
Technical provisions	46,567,594	46,729,902	162,308
Basic own funds	8,258,636	8,147,136	(111,499)
SCR	2,911,315	2,925,701	14,385
MCR	1,310,092	1,316,565	6,473
Eligible amount of own funds to meet SCR	8,258,636	8,147,136	(111,499)
Eligible amount of own funds to meet MCR	7,403,189	7,292,985	(110,205)
SCR coverage ratio	2.84	2.78	(0.05)
MCR coverage ratio	5.65	5.54	(0.11)

D.3 Other liabilities

D.3.1 Valuation criteria

Please first of all note that, when not specified otherwise, no changes were made to the valuation criteria, methods and models with respect to those used in the previous year.

Financial liabilities

The fair value of other (non-technical) financial liabilities is measured by taking into account the credit rating of the company "at inception", without considering any subsequent changes in that credit rating.

Other liabilities

For all other liabilities not included in the categories of previous paragraphs, taking into account the related characteristics, the recognition value in the MCBS is consistent with their value determined for the consolidated financial statements drafted by the holding company and consequently applying the reference IAS/IFRS.
In this regard, note that as of 2019 IFRS 16 entered into force, replacing IAS 17 with reference to the recognition of lease agreements. The main new aspect introduced refers to the accounting method for leases payable, which are no longer divided into finance (contracts whereby the lessee substantially assumes all risks and rewards of ownership of the leased asset) and operating (lease agreements other than finance leases) leases, but are instead subject, with the exception of specific contractual types (e.g., "short term" and "low value" contracts), to a single accounting model similar to that envisaged in IAS 17 for finance leases. For lessee/user companies, this different accounting representation (the "financial method") results in an increase in tangible assets recognised in the MCBS (right-of-use assets, connected to the leased assets) and an increase in liabilities (the financial debt on the leased assets).

D.3.2 Quantitative information on the valuation of other liabilities

The differences recognised between other liabilities in the MCBS and their corresponding valuations in the Financial statements are provided below.

Other liabilities

Amounts in €k	Solvency II value	Statutory accounts value	Difference
Provisions other than technical provisions	397,153	397,153	
Pension benefit obligations	87,226	51,081	36,145
Deposits received from reinsurers	145,201	145,201	
Derivatives	230,061	211,803	18,259
Debts owed to credit institutions	1,811	1,811	
Financial liabilities other than debts owed to credit institutions	251,965	208,342	43,623
Insurance and intermediaries payables	69,081	68,623	458
Reinsurance payables	46,097	46,097	
Payables (trade, not insurance)	84,047	84,047	
Subordinated liabilities	2,269,531	2,167,628	101,904
Any other liabilities, not elsewhere shown	1,163,375	1,163,297	78
Total	**4,745,548**	**4,545,081**	**200,467**

The differences recorded in the following items:

- liabilities accrued to employees as post-employment benefits (pension benefit obligations);
- subordinated liabilities;
- other liabilities, "Any other liabilities, not elsewhere shown";
- liabilities to insurance companies and intermediaries (Insurance and intermediaries payables);
- derivatives;
- financial liabilities other than debts owed to credit institution,

derive from the different methods used to quantify these liabilities between Italian GAAP and international accounting standards in application of IAS 19, IAS 37, IFRS 2, IFRS 4 and IFRS 16, which represent criteria consistent with those envisaged for preparation of the MCBS. The majority of these refer to liabilities associated with employee relations (post-employment benefits, seniority bonuses, share-based incentives for employees) and liabilities deriving from derivative contracts.

The total liabilities for defined benefit plans due to employees after termination is €87,226k, of which €54,895k relating to post-employment benefits, €32,224k as obligations deriving from the post-retirement policy for managers and €107k as obligations deriving from the agents' welfare fund. There are no assets serving such defined benefit plans.

Post-employment benefits accrued by 31 December 2006 that were not transferred to External Bodies in accordance with the provisions of Legislative Decree 252/05 on supplementary pension schemes come under the category of employee benefits classified as a defined benefits plan. The amount due to employees is therefore calculated using actuarial techniques and discounted at the reporting date, using the "Projected unit credit method" (a method based on benefits accrued in proportion to length of employment).
The same method is used to establish the effects of other defined benefits for employees for the post-employment period.

Future cash flows are discounted on the basis of the market yield curve, recorded at the end of the year, for corporate bonds issued by issuers with high credit standing.

Net interest is calculated by applying to the net value of liabilities for defined benefits existing at the start of the year the one-year interest rate taken from the yield curve used to discount the liability at the end of the previous year.
The increase in liabilities (€18,259k) referring to derivative instruments recognised in the MCBS with respect to the financial statements was due to the different valuation criteria applicable to such accounting documents. In particular, in the MCBS all derivatives are measured at fair value in line with IAS/IFRS, while within the financial statements such instruments are subject to more detailed valuation criteria which also take into consideration any capital gains or losses on financial assets or liabilities connected to each derivative instrument.

As regards subordinated liabilities, as indicated previously, these were measured at fair value (without considering the post-issue change in credit rating) for MCBS purposes. Such liabilities were instead measured at nominal value, adjusted for the effects of issue expenses and discounts for preparation of the financial statements.

The difference relating to Financial liabilities other than debts owed to credit institutions was caused by the impact of IFRS 16, as explained in section D.1.1 Valuation criteria.

With regard to other liabilities referred to as "Any other liabilities, not elsewhere shown" in the above table, the difference is mainly due to the different valuation of the liabilities for long-term incentives relating to the share-based incentive plans for managers which have a recognition value in the MCBS.

D.4 Alternative methods for valuation

Provided below is the breakdown by valuation method for assets and liabilities recognised in the MCBS, adopted to identify the portions of assets and liabilities for which alternative valuation methods were used, based on the premises stated in Art. 10 of the Regulation (absence of listed prices on active markets of assets and liabilities identical or similar to those under valuation, or other valuation methods defined in Articles 11 (contingent liabilities), 12 (intangible assets), 13 (participations), 14 (financial liabilities) and 15 (deferred taxes) and in CHAPTER III (technical provisions) of the Regulation.

Amounts in €k	Total	Of which valued upon active markets quotations for the same assets and liabilities or for similar ones	Of which valued upon other valuation methods as set out in the Regulation	Of which valued upon alternative methods for valuation
Assets				
Goodwill				
Deferred acquisition costs				
Intangible assets				
Deferred tax assets				
Pension benefit surplus				
Property, plant & equipment held for own use	675,721			675,721
Investments (other than assets held for index-linked and unit-linked contracts)	46,319,634	38,916,890	3,524,143	3,878,601
Property (other than for own use)	1,716,189			1,716,189
Holdings in related undertakings, including participations	3,524,143		3,524,143	
Equities	895,424	726,320		169,104
Equities - listed	726,320	726,320		
Equities - unlisted	169,104			169,104
Bonds	37,196,437	36,486,692		709,745
Government Bonds	26,189,556	25,874,414		315,142
Corporate Bonds	10,356,009	10,084,821		271,188
Structured notes	650,872	527,457		123,415
Collateralised securities				
Collective Investments Undertakings	2,762,949	1,558,653		1,204,296
Derivatives	153,498	145,225		8,273
Deposits other than cash equivalents	70,995			70,995
Other investments				
Assets held for index-linked and unit-linked contracts	5,625,577	5,642,111		(16,534)
Loans and mortgages	1,347,608			1,347,608
Loans on policies	19,411			19,411
Loans and mortgages to individuals	401,147			401,147
Other loans and mortgages	927,049			927,049
Reinsurance recoverables from:	492,813		492,813	
Non-life and health similar to non-life	462,143		462,143	
Non-life excluding health	451,475		451,475	
Health similar to non-life	10,668		10,668	
Life and health similar to life, excluding health, index-linked and unit-linked	30,670		30,670	
Health similar to life				
Life, excluding health, index-linked and unit-linked	30,670		30,670	
Life index-linked and unit-linked				
Deposits to cedants	10,334			10,334
Insurance and intermediaries receivables	1,283,527			1,283,527
Reinsurance receivables	128,890			128,890
Receivables (trade, not insurance)	113,066			113,066
Own shares (held directly)	2,602	2,602		
Amounts due in respect of own fund items or initial fund called up but not yet paid in				
Cash and cash equivalents	393,270	393,270		
Any other assets, not elsewhere shown	1,673,870			1,673,870
Total	58,066,913	44,954,874	4,016,956	9,095,083

Amounts in €k	Total	Of which valued upon active markets quotations for the same assets and liabilities or for similar ones	Of which valued upon other valuation methods as set out in the Regulation	Of which valued upon alternative methods for valuation
Liabilities				
Technical provisions – non-life	11,948,876		11,948,876	
Technical provisions – non-life (excluding health)	11,271,130		11,271,130	
Technical provisions calculated as a whole				
Best Estimate	10,852,468		10,852,468	
Risk margin	418,662		418,662	
Technical provisions - health (similar to non-life)	677,746		677,746	
Technical provisions calculated as a whole				
Best Estimate	640,496		640,496	
Risk margin	37,250		37,250	
Technical provisions - life (excluding index-linked and unit-linked insurance contracts)	28,973,992		28,973,992	
Technical provisions - health (similar to life)				
Technical provisions calculated as a whole				
Best Estimate				
Risk margin				
Technical provisions – life (excluding health and index-linked and unit-linked insurance contracts)	28,973,992		28,973,992	
Technical provisions calculated as a whole				
Best Estimate	28,783,431		28,783,431	
Risk margin	190,561		190,561	
Technical provisions – index-linked and unit-linked	5,644,726		5,644,726	
Technical provisions calculated as a whole				
Best Estimate	5,625,294		5,625,294	
Risk margin	19,431		19,431	
Other technical provisions				
Contingent liabilities				
Provisions other than technical provisions	397,153			397,153
Pension benefit obligations	87,226			87,226
Deposits from reinsurers	145,201		145,201	
Deferred tax liabilities	228,593		228,593	
Derivatives	230,061	219,916		10,146
Debts owed to credit institutions	1,811		1,811	
Financial liabilities other than debts owed to credit institutions	251,965		251,965	
Insurance and intermediaries payables	69,081		69,081	
Reinsurance payables	46,097		46,097	
Payables (trade, not insurance)	84,047		84,047	
Subordinated liabilities	2,269,531		2,269,531	
Subordinated liabilities not included in Basic Own Funds				
Subordinated liabilities included in Basic Own Funds	2,269,531		2,269,531	
Any other liabilities, not elsewhere shown	1,163,375			1,163,375
Total	**51,541,734**	**219,916**	**49,663,919**	**1,657,900**

The description of the methods used and the valuation uncertainties is given in the comments on valuation criteria in paragraphs D.1.1 and D.3.1.

Based on past experience, no significant deviations emerged between the estimated valuation based on alternative valuation methods and the corresponding values deduced, for example, from subsequent market transactions involving these assets and liabilities.

D.5 Any other information

Note that there is no significant information to report in addition to that already illustrated in previous paragraphs.

E

CAPITAL MANAGEMENT

E.1Own funds

E.1.1 Introduction

Own funds (hereinafter also "OF") represent the financial resources steadily acquired by the company and available to absorb losses and to overcome risks generated by business activities on a going concern basis.

The calculation process for own funds eligible to cover capital requirements (SCR and MCR) envisages, firstly, the determination of available own funds. The latter are then restated in accordance with the eligibility criteria envisaged in the Regulation in order to establish the eligible own funds.

The Directive divides available Own Funds into basic OF and ancillary OF.

The basic OF are formed from the surplus of assets over liabilities, both measured at fair value pursuant to Art. 75 of the Directive, and subordinated liabilities. The elements are classified in 3 tiers (Tier 1, Tier 2 and Tier 3) based on the technical characteristics and the objectives of stability and loss absorption.

Note that, among the Tier 1 elements, the reconciliation provision is equal to the amount representing the total excess of assets over liabilities, less the value of:

- own shares of the Company;
- expected dividends;
- Tier 2 and Tier 3 own funds;
- Tier 1 elements other than the reconciliation provision;
- the excess of own funds over and above the notional SCR of Ring Fenced Funds or any assets not considered eligible for SCR cover based on specific Supervisory Authority instructions.

The ancillary OF, of which the Company had none at 31 December 2019, are the elements other than basic that can be used to absorb losses.
The above category can include:

- share capital or initial funding not paid and not called;
- letters of credit and guarantees;
- any other legally binding commitment received by the Company.

These elements, whose inclusion among ancillary OF is subject to Supervisory Authority approval, cannot be calculated in Tier 1 and are not eligible for MCR cover.

The eligibility limits used are those established in Art. 82 of the Regulation, which envisages the following criteria to meet the Solvency Capital Requirement (SCR):

- the Tier 1 percentage must be at least 50% of the SCR;
- the total of Tier 3 elements must be less than 15% of the SCR;
- the sum of Tier 2 and Tier 3 elements cannot be higher than 50% of the SCR.

Within the above limits, Tier 1 subordinated liabilities (defined as "Tier 1 restricted") cannot exceed 20% of the total Tier 1 elements. The elements that should be included in the upper Tiers, but are in excess of the above limits, can be reclassified to the lower Tiers until those lower Tiers are completely saturated.

As regards compliance with the Minimum Capital Requirement (MCR), the eligibility limits used are the most stringent established in the Regulation:

- the Tier 1 percentage must be at least 80% of the MCR;
- the total of Tier 2 elements, therefore, cannot be higher than 20% of the MCR.

Own funds classifiable as Tier 3 are eligible as MCR cover.

In the event of a change to the presentation criteria compared to those adopted in the previous year, any comparative data are re-stated and reclassified in the disclosure in Chapter E in order to provide homogeneous and consistent information.

E.1.2 Capital management policy

The Company's capital management strategies and objectives are set out in the "Capital Management and Dividend Distribution Policy", which describes the reference framework and process for capital management and dividend distribution also in terms of the roles and responsibilities of the players involved. The document also identifies the principles for capital management and dividend distribution or other elements of own funds, consistent with the objectives of return on capital and with the risk appetite defined by the Board of Directors.

The general aims pursued by the "Capital Management and Dividend Distribution Policy" are:

- define in advance the allocated return on capital objectives, consistent with profitability objectives and in line with the risk appetite;
- maintain a solid and efficient capital structure, considering the growth targets and risk appetite;
- outline the capital management process for the definition of procedures to guarantee, among other things, that:

    - the elements of own funds, at the time of issue and subsequently, satisfy the applicable capital regime and are correctly classified;
    - the terms and conditions for each element of own funds are clear and undeniable;

- define in advance a sustainable flow of dividends, in line with the profit generated, available cash and the risk appetite, also identifying and documenting any situations in which the distributions of elements of own funds can be cancelled or postponed;
- outline the dividend distribution process for the definition of procedures to guarantee a solid and efficient capital structure, considering that growth targets and profitability objectives are in line with the risk appetite;
- define the roles, responsibilities and reporting on capital management, distribution of dividends and other elements of own funds.

The capital management and dividend distribution process is divided into five steps, closely associated with other corporate processes:

- final measurement of available capital and capital requirement;
- formulation of the medium-term capital management plan;
- operating monitoring and reporting;
- management actions on capital;
- distribution of dividends and other elements of own funds.

E.1.3 Information on available and eligible own funds

The table below illustrates the position at 31 December 2019 for the Company's available and eligible own funds, divided into the Tiers, with a demonstration of the changes occurring between 31 December 2018 and 31 December 2019.

Amounts in €k	31/12/2018	Issued	Redeemed	Movements in valuation	Regulatory action	31/12/2019
Total available own funds to meet the SCR	7,057,066		(533,418)	1,734,988		8,258,636
of which tier 1 unrestricted	*4,544,442*		*(452,581)*	*1,897,244*		*5,989,104*
of which tier 1 restricted	*1,230,411*		*(80,837)*	*2,492*		*1,152,067*
of which tier 2	*1,114,551*			*2,914*		*1,117,465*
of which tier 3	*167,662*			*(167,662)*		
Adjustments for eligibility restrictions						
of which tier 1 unrestricted						
of which tier 1 restricted	*(94,301)*			*94,301*		
of which tier 2	*94,301*			*(94,301)*		
of which tier 3						
Total eligible own funds to meet the SCR	7,057,066		(533,418)	1,734,988		8,258,636
of which tier 1 unrestricted	*4,544,442*		*(452,581)*	*1,897,244*		*5,989,104*
of which tier 1 restricted	*1,136,110*		*(80,837)*	*96,793*		*1,152,067*
of which tier 2	*1,208,852*			*(91,387)*		*1,117,465*
of which tier 3	*167,662*			*(167,662)*		

Taking into account that the Company has no ancillary OF, the own funds available as SCR cover coincide with the basic own funds.

Details are provided below of the annual changes in elements of the basic own funds, broken down by Tier:

Annual movements on basic own funds

Amounts in €k	31/12/2018	Issued	Redeemed	Movements in valuation	Regulatory action	31/12/2019
Paid-in ordinary share capital	2,031,456					2,031,456
Share premium account related to ordinary share capital	407,256					407,256
Reconciliation reserve	2,109,732		(452,581)	1,973,925		3,631,076
Other own fund items approved by the supervisory authority as basic own funds						
Own funds in the MCBS that should not be represented by the reconciliation reserve	(4,002)			(76,681)		(80,684)
Total "Tier 1 unrestricted"	**4,544,442**		**(452,581)**	**1,897,244**		**5,989,104**
Called up but unpaid ordinary share capital						
Subordinated liabilities	1,230,411		(80,837)	2,492		1,152,067
Total "Tier 1 restricted"	**1,230,411**		**(80,837)**	**2,492**		**1,152,067**
Subordinated liabilities	1,114,551			2,914		1,117,465
Total "Tier 2"	**1,114,551**			**2,914**		**1,117,465**
Subordinated liabilities						
Net deferred tax assets	167,662			(167,662)		
Total "Tier 3"	**167,662**			**(167,662)**		
Total basic own funds	**7,057,066**		**(533,418)**	**1,734,988**		**8,258,636**

Overall, there was an increase in basic own funds of €1,201,570k primarily due to the increase in the reconciliation reserve which rose from €2,109,732k to €3,631,076k. For a description of the breakdown and changes in the main items making up the reconciliation reserve, please refer to the subsequent paragraph.
The item "Own funds in the MCBS which are not represented by the reconciliation reserve and which do not meet criteria to be classified as own funds for Solvency II purposes" (€80,684k at 31/12/2019, up compared to the previous year) includes assets present in the MCBS but which, in application of regulatory provisions, were not considered for the coverage of the Solvency Capital Requirement.
With reference to the "Tier 1" subordinated liabilities, the amount of €80,837k in the redeemed column refers to the amount, inclusive of interest, redeemed in July 2019 on the subordinated loan of €400m expiring on 24 July 2023. This redemption, authorised by IVASS on 3 July 2019, is the first of five annual instalments for a nominal amount of €80m each, set forth in the repayment plan for that subordinated liability.
The increase in the item relating to subordinated liabilities in "Tier 2" was due to the change in fair value with respect to the previous year.
Lastly, the amount of net deferred tax assets in "Tier 3" was equal to zero at 31 December 2019 with respect to a value of €167,662k in the previous year.

Composition and characteristics of the Company's own funds

The ordinary share capital and share premium reserve correspond to the amount paid in by the Company's shareholders. Based on their level of stability and their loss-absorbing capacity, they qualify as "Tier 1 unrestricted" own funds.

The reconciliation reserve, based on Art. 69 of the Regulation, represents the residual amount of the Company's own funds eligible as an element of Tier 1 unrestricted own funds, determined by making suitable adjustments to the total obtained as the difference between assets and liabilities recorded in the MCBS. Details of the calculation of the reconciliation reserve are provided below.

Reconciliation reserve

Amounts in €k	2019	2018
Excess of assets over liabilities from MCBS (A)	6,525,178	5,218,080
Own shares (held directly and indirectly) (B)	2,809	98,921
Foreseeable dividends, distributions and charges (C)	452,581	403,052
Other basic own fund items (D)	2,438,712	2,606,374
Reconciliation reserve (A-B-C-D)	3,631,076	2,109,732

To determine the reconciliation reserve, the following adjusting items were deducted from the amount obtained as the difference between assets and liabilities set forth in the MCBS:

- the item "Other basic own fund items", for €2,438,712k (€2,606,374k at 31/12/2018) included exclusively the elements classified as Tier 1 unrestricted, corresponding to the amount of the share capital paid in and the share premium reserve;
- the total of own shares held directly and indirectly by the Company of €2,809k (€98,921k at 31/12/2018) changed primarily due to the sale of indirectly held treasury shares;
- the total of foreseeable dividends, distributions and charges (€452,581k, compared to €403,052k at 31/12/2018);

At 31 December 2019, no further deductions are applicable, other than those indicated in the reconciliation reserve calculation, to be applied to basic own funds against significant restrictions affecting the availability and transferability of own funds within the Company.

Included in the available Tier 1 restricted own funds are the subordinated liabilities indicated below, totalling €1,152,067k. All the subordinated liabilities in question were classified as elements of Tier 1 restricted own funds following application of the transitional provisions of Art. 308-ter of the Directive.

Subordinated liabilities - Tier 1

Amounts in €k	Issue date	Maturity date	Next call date	Further call dates	Nominal	SII Market value (clean price) A	Accrued interests B	SII Value (accrued interests included) C = A+B
Hybrid 2014 750M	18/06/2014	undated	18/06/2024	Every 3 months	750,000	801,975	23,094	825,069
Subordinated 2003 400M*	24/07/2003	24/07/2023	24/01/2020	Every 6 months	320,000	324,928	2,069	326,997
Total					1,070,000	1,126,903	25,164	1,152,067

* The contract makes provision for early repayment, in 5 constant instalments, starting from the 16th year from issue, following IVASS authorisation.

With reference to the Company's available Tier 2 own funds, indicated in the following table, note that the subordinated liabilities which can be recorded in this tier on the basis of the transitional provisions of Art. 308-ter of the Directive amounted to €562,925k (Subordinated 300M 2001 and 2003) out of total which can be included among the basic Tier 2 own funds for a total of €1,117,465k.

Subordinated liabilities - Tier 2

Amounts in €k	Issue date	Maturity date	Next call date	Further call dates	Nominal	SII Market value (clean price) A	Accrued interests B	SII Value (accrued interests included) C = A+B
Subordinated 2018 500M	01/03/2018	01/03/2028	-	-	500,000	538,350	16,190	554,540
Subordinated 2001 300M	15/06/2001	15/06/2021	15/03/2020	Every 3 months	300.000	300,390	263	300,653
Subordinated 2003 300M	28/07/2003	28/07/2023	28/01/2020	Every 3 months	261.689*	261,296	975	262,272
Total					1,061,689	1,100,036	17,428	1,117,465

* Total nominal value issued: €300,000k.

Eligible own funds

As stated in the introduction, in order to identify the total eligible own funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), it is necessary to apply the provisions of Art. 82 of the Regulation to the available own funds.

The following table illustrates the structure and amount of OF to meet SCR and MCR, determined for 2019, in comparison with the same data for the year ended at 31 December 2018.

Available and eligible own funds to meet the SCR

Amounts in €k	Available own funds	Adjustments for eligibility	Eligible own funds 2019	Eligible own funds 2018
Tier 1 unrestricted	5,989,104		5,989,104	4,544,442
Tier 1 restricted	1,152,067		1,152,067	1,136,110
Tier 2	1,117,465		1,117,465	1,208,852
Tier 3				167,662
Total OF	8,258,636		8,258,636	7,057,066
Total SCR			2,911,315	2,788,509
Surplus/(shortage)			5,347,321	4,268,557

Available and eligible own funds to meet the MCR

Amounts in €k	Available own funds	Adjustments for eligibility	Eligible own funds 2019	Eligible own funds 2018
Tier 1 unrestricted	5,989,104		5,989,104	4,544,442
Tier 1 restricted	1,152,067		1,152,067	1,136,110
Tier 2	1,117,465	(855,446)	262,018	250,966
Total OF	8,258,636	(855,446)	7,403,189	5,931,518
Total MCR			1,310,092	1,254,829
Surplus/(shortage)			6,093,098	4,676,689

As seen from the above tables, the provisions envisaged in the Regulation for the identification of own funds eligible to meet SCR and MCR resulted in, for MCR coverage purposes, a decrease in Tier 2 following application of the more stringent eligibility rules summarised in the introduction.

Reconciliation with shareholders' equity from the financial statements

The MCBS at 31 December 2019 shows that assets exceed liabilities by €6,525,178k (€5,218,080k at 31/12/2018), €465,521k higher than the shareholders' equity recorded in the Company's financial statements at the same date (the "Financial Statements"). This difference is due to the different valuation of shareholders' equity components, as seen in the following statement of reconciliation:

Statement of reconciliation between Financial Statements and MCBS Shareholders' equity

	Amounts in €k	2019	2018
A	Shareholders' equity (Financial Statements)*	6,059,658	5,768,584
	Adjustments by assets/liabilities type		
1	Intangible assets	(741,007)	(754,580)
2	Properties and tangible assets for investment and for own use	296,493	238,710
3	Other financial investments	4,385,289	844,645
4	Non-life technical provisions	1,479,593	1,454,095
5	Non-life reinsurance recoverables	(147,179)	(142,720)
6	Life technical provisions	(3,999,842)	(1,751,975)
7	Life reinsurance recoverables	(5)	(6)
8	Financial Liabilities	(145,527)	(97,723)
9	Other assets	4,184	1,614
10	Provisions		
11	Other liabilities	(36,681)	(71,840)
12	Deferred taxes	(629,798)	(270,723)
	Total adjustments	465,521	(550,504)
B	Shareholders' equity (MCBS)	6,525,178	5,218,080

* Note that the difference with respect to the total shareholders' equity in Balance Sheet Liabilities item 110 in the Company's financial statements (equal to €6,057,811k at 31/12/2019) is due to the recognition in that accounting document of own shares (amounting to €1,847k) as an adjustment to shareholders' equity.

Section D above illustrates the valuation criteria adopted for preparation of the MCBS, as well as more detailed quantitative information on the comparison with financial statements values.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

As already mentioned, the Company calculates its Solvency Capital Requirement on the basis of the Partial Internal Model, without adopting the simplified calculations permitted by regulations. The valuations were performed by applying the Volatility Adjustment (VA) as the long-term measurement envisaged in the Solvency II regulations, the precise value of which as communicated by EIOPA at the reference date of 31 December 2019 was 7 basis points.

The SCR total for the Company UnipolSai at the end of the reference period was €2,911,315k, up by €122,806k compared to the SCR relating to 31 December 2018. The change in the SCR between the two periods subject to analysis was primarily due to the change in the value of Market Risks; for an explanation of the reasons for this change, please refer to chapter C.

The total MCR of the Company at the end of the reference period was €1,310,092k. As represented in the attached QRT S.28.02.01[17], the MCR is calculated on the basis of the $MCR_{combined}$, the value of which is higher than that of the Absolute Minimum Capital Requirement (AMCR). The $MCR_{combined}$ is represented by the value of the MCR cap, as it is lower than that of the Linear MCR.

The amount of the SCR for each risk category established for the Partial Internal Model is shown below along with a comparison with the data relating to 31 December 2018:

[17] Column C0130, rows from R0300 to R0350 and R0400.

SCR - Partial Internal Model

Amounts in €k

Risk Modules	2019	2018	Change on 2018
Non-life and health underwriting risk	1,849,835	1,874,950	(25,115)
Life underwriting risk	258,901	215,741	43,160
Market risks	2,372,234	2,089,426	282,808
Credit risk	333,121	275,316	57,805
Diversification	*(1,098,591)*	*(1,023,289)*	*(75,302)*
BSCR	3,715,500	3,432,143	283,357
Operational risk	475,518	478,003	(2,485)
ALAC TP	(491,014)	(363,707)	(127,307)
ALAC DT	(841,496)	(804,422)	(37,074)
Model Adjustment	52,807	46,492	6,315
SCR	2,911,315	2,788,509	122,806

As part of the risk assessment carried out using the Partial Internal Model, UnipolSai quantifies the Non-Life premium and reserve risks for the lines of business (i) MV TPL, (ii) General Liability and (iii) Fire and other damage to property through the Standard Formula and use of the Undertaking Specific Parameters (USP).

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use the equity risk sub-module pursuant to Art. 304 of the Regulation to calculate the SCR.

E.4 Differences between the standard formula and any internal model used

The Company calculates its Solvency Capital Requirement using a Partial Internal Model in order to more adequately assess the real risk profile of the enterprise with respect to the standard formula. On 8 February 2017, the Company received from the Supervisory Authority the authorisation to use the Partial Internal Model for regulatory purposes, from 31 December 2016 onwards.

To provide a more complete representation of the risk profile, the Company has adopted risk classification criteria somewhat different from those proposed by the Standard Formula, which is the method used to calculate the Solvency Capital Requirement ("SCR") for companies that have not developed an internal model. In particular, with regard to market risk, as part of the PIM, the Company also considers the risks relating to the volatility of share prices and interest rates.

For the risk modules not within the scope of the PIM, the Standard Formula is used with the application of specific parameters of the company (Undertaking Specific Parameters or USP) to calculate premium risk and reserve risk relating to the following Lines of Business ("LoB"):

- Segment 1, Proportional insurance and reinsurance on TPL resulting from the circulation of vehicles, comprising Lines of Business 4 and 16 as defined in Annex I to the Regulation. This segment is also referred to as "Motor third-party liability" or "Motor vehicle liability" or the acronym MVL;

- Segment 4, Proportional insurance and reinsurance against fire and other damage to property resulting, comprising Lines of Business 7 and 19 as defined in Annex I to the Regulation. This segment is referred to as "Fire and other property damage" or "Fire and other Damage to Property" or the acronym FDP;
- Segment 5, Proportional insurance and reinsurance on general third-party liability, comprising Lines of Business 8 and 20 as defined in Annex I to the Regulation. This segment is also referred to as "Third-party liabilities" or "General liability" or the acronym GLI.

In addition, within the Partial Internal Model the Company also assesses the following risks using the Market Wide Standard Formula:
- market concentration risk;
- the Credit risk exposure to residual counterparties for which no information has at present been obtained for PIM modelling;
- the Health and Non-Life Catastrophe risks other than Earthquake risk;
- the Non-Life and Health premium and reserve risks for lines of business other than those indicated previously;
- Non-Life and Health surrender risk;
- Life business catastrophe risk;
- Operational risk;
- all Market risks and all Life underwriting risks in reference to index-linked policies, unit-linked policies and pension funds.

The risk aggregation process calls for a bottom-up approach and may be broken down into two phases:
- aggregation of the risk sub-modules that make up the Market, Non-Life and Health, Life and Credit risks;
- aggregation of the Market, Non-Life and Health, Life and Credit risk modules.

The aggregation of the sub-modules involves three distinct approaches:
- joint sampling of risk factors;
- aggregation by means of the Var-Covar method with a posteriori determination of the Probability Distribution Forecast ("PDF");
- aggregation of multiple marginal distributions through copula functions.

More specifically:
- the joint sampling is a risk aggregation method involving the direct calculation of PDF values subject to the occurrence of scenarios with multiple variations of the risk factors in question. This approach allows projection of the Company's MCBS against the set of joint scenarios identified, and subsequent determination of the distribution of the probability of profit and losses aggregated over a time horizon consistent with the holding period of the risk assessment;
- the Var-Covar method is used to aggregate the components of the model adopting the Standard Formula with the components valued using the Internal Model. The main objective is to aggregate the Standard Formula component with the Internal Model component, preserving the PDF-related information;
- when at one point in the PIM aggregation hierarchy two or more empiric distributions meet, these distributions are aggregated using the copula functions. This aggregation method allows the determination of a joint distribution formed by two or more marginal distributions, and to subsequently sample the variable sum distribution.

After determining the PDFs for each risk model (Market PDF, Non-Life PDF, Credit PDF, Life PDF), they are aggregated through:
- determination of a Proxy PDF through scenario-to-scenario association of empiric margins;
- determination of the PDF by means of a Gaussian copula.

This process determines the joint PDF for the four risk modules, considered indispensable in order to adequately capture the Company's risk profile taking into account the dependencies between the various risks.

The loss recorded at the 99.5th percentile of the joint PDF represents the BSCR value of the Company.

The Solvency Capital Requirement is obtained by adding the components relating to operational risk, risk associated with ring fenced funds and those relating to adjustments for loss-absorbing capacity of technical provisions and deferred tax assets and liabilities to the BSCR.

The reasons for which it is considered that the PIM offers a more suitable representation of the Company's risk profile than the Standard Formula are provided below.

Life underwriting risk

The Internal Model measures Life business underwriting risk more accurately than the Standard Formula, mainly for the following reasons:

- it allows a maximum loss calculation based on scenarios calibrated on the specific portfolio of the Company, through actual analysis of the trend in Life underwriting risk factors. Whilst the Standard Formula adopts a scenario-based approach with scenarios predefined and calibrated on the European market situation, the Internal Model determines the maximum loss to which the Company could be exposed based on changes in the Life underwriting risk factors;
- it uses more granular and specific actuarial scenarios, defined on the basis of the risk characteristics of the Company's policies portfolio. Unlike the Standard Formula, in which scenarios for each Life underwriting risk are unambiguous for all product classes, in the PIM the scenarios that determine the Company's maximum loss are differentiated on the basis of standardised product classes;
- it allows periodic updating of the scenarios relating to each risk factor. In fact, with the PIM, the scenarios that determine the maximum loss are updated quarterly;
- it allows a more suitable valuation of the effects of mitigation deriving from the management strategies of financial portfolios underlying the Life insurance policies;
- it facilitates the use test, guaranteeing consistency with the assumptions and models used in the business valuations.

Market risks

The Internal Model measures the market risks of the Company's financial instruments more accurately than the Standard Formula, mainly for the following reasons:

- it allows more accurate measurement of the market risks, determining the maximum loss on the basis of effective changes in the total portfolio value against a combination of risk factors and not through the parameter-based approaches defined in the Standard Formula;
- it uses more granular and specific risk factors, defined on the basis of the risk characteristics of the financial instruments portfolio currently held by the Company;
- it allows constant calibration updating of the models that generate stochastic financial scenarios relating to risk factors identified on the basis of market developments, whilst these scenarios remain static in the Standard Formula;
- it allows calculation of the spread risk by applying stochastic financial scenarios calibrated on historical data and determination of the effective change in the asset value rather than using the parameter-based method envisaged in the Standard Formula;
- it allows calculation of the property risk on the basis of scenarios calibrated on indices representing the Italian real estate market, rather than indices calibrated on the European-UK markets, given the diversity characterising the different markets;
- it allows benefits of diversification between the market risk factors to be captured, based on historically verified correlations. For example, with reference to equity risk, the Internal Model considers the values of sector indices representing individual shares as risk factors, allowing benefits deriving from a diversified portfolio to be captured;
- from a use test point of view, it allows a risk measurement tool to be used that allows continuous dialogue and comparison with the operating departments that manage the investment portfolios, using logics shared with the lines of business. It combines the need for strict capital at risk measurement with the need to have an operating decision-making support tool to optimise the risk/return parameters of the portfolio.

The Market risk module of the Company's Internal Model includes the following sub-modules not envisaged by the Standard Formula:

- Equity volatility risk, i.e. the risk of a potential negative change in the value of available capital due to changes in the volatility of the equity instruments;
- Interest rate volatility risk, i.e. the risk of a potential negative change in the value of available capital due to changes in the volatility of the interest rate derivative instruments.

Credit risk

The Internal Model quantifies the maximum loss of all exposures for which specific financial information can be identified or the degree of risk determined based on historical information obtained internally. For such counterparties it is therefore possible to identify the specific risk parameters. Vice versa, the weighted averages envisaged in the Standard Formula do not allow the use of accurate information that distinguishes the counterparties analysed.

The decision to adopt the Internal Model to calculate the capital requirement for credit risk was, in addition to the purpose of accurately capturing the risk profile of exposures, also dictated by the need - for certain types of exposure - to envisage weightings in line with the effective level of risk detected.

The Internal Model provides the results necessary to fully characterise the Company's risk profile. In particular, the model calculates the entire distribution of losses, highlighting any concentration effects. These aspects are also set out on the basis of the business segment (Life, Non-Life) and the types of credit making up the Company's exposure: exposure to banks, insurance companies, co-insurers, reinsurers, insurance intermediaries (agencies and brokers), policyholders and other receivables.

Earthquake risk

The Internal Model measures Non-Life business earthquake risk more accurately than the Standard Formula, mainly because:

- it allows more granular geo-referencing of the Company's risks in a given area and a specific assessment of the risk mitigation effect guaranteed by the policy terms and conditions (deductibles, reimbursement limits, non-coverage). In addition, the modular composition allows separate assessment of the seismic dangers of a given area and the vulnerability of the assets insured, the latter assessed on the basis of construction, property usage, year of construction and building height characteristics;
- facilitate the use test by adopting models more aligned to those used by the business. In addition to calculation of the earthquake SCR, the model is also used in particular:
  - to support the pricing of Standardised Products and Corporate Risks, as well as valuation of the reliable estimate of losses if a seismic event occurs (post-event analysis);
  - to measure the reinsurance purchasing capacity for the catastrophe treaties and to estimate the related cost.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

At no time, during the year, did the Company fail to meet its Solvency Capital Requirement or its Minimum Capital Requirement.

E.6 Other information

There is no significant additional information to report on the company's capital management.

Bologna, 19 March 2020

The Board of Directors

QRT MODELS

S.02.01.02

Balance sheet

		Solvency II
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	675,721
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	46,319,634
Property (other than for own use)	R0080	1,716,189
Holdings in related undertakings, including participations	R0090	3,524,143
Equities	R0100	895,424
Equities - listed	R0110	726,320
Equities - unlisted	R0120	169,104
Bonds	R0130	37,196,437
Government Bonds	R0140	26,189,556
Corporate Bonds	R0150	10,356,009
Structured notes	R0160	650,872
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	2,762,949
Derivatives	R0190	153,498
Deposits other than cash equivalents	R0200	70,995
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	5,625,577
Loans and mortgages	R0230	1,347,608
Loans on policies	R0240	19,411
Loans and mortgages to individuals	R0250	401,147
Other loans and mortgages	R0260	927,049
Reinsurance recoverables from:	R0270	492,813
Non-life and health similar to non-life	R0280	462,143
Non-life excluding health	R0290	451,475
Health similar to non-life	R0300	10,668
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	30,670
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	30,670
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	10,334
Insurance and intermediaries receivables	R0360	1,283,527
Reinsurance receivables	R0370	128,890
Receivables (trade, not insurance)	R0380	113,066
Own shares (held directly)	R0390	2,602
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	393,270
Any other assets, not elsewhere shown	R0420	1,673,870
Total assets	R0500	58,066,913

Liabilities

		Solvency II
Technical provisions – non-life	R0510	11,948,876
Technical provisions – non-life (excluding health)	R0520	11,271,130
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	10,852,468
Risk margin	R0550	418,662
Technical provisions - health (similar to non-life)	R0560	677,746
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	640,496
Risk margin	R0590	37,250
Technical provisions - life (excluding index-linked and unit-linked)	R0600	28,973,992
Technical provisions - health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	28,973,992
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	28,783,431
Risk margin	R0680	190,561
Technical provisions – index-linked and unit-linked	R0690	5,644,726
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	5,625,294
Risk margin	R0720	19,431
Other technical provisions	R0730	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	397,153
Pension benefit obligations	R0760	87,226
Deposits from reinsurers	R0770	145,201
Deferred tax liabilities	R0780	228,593
Derivatives	R0790	230,061
Debts owed to credit institutions	R0800	1,811
Financial liabilities other than debts owed to credit institutions	R0810	251,965
Insurance & intermediaries payables	R0820	69,081
Reinsurance payables	R0830	46,097
Payables (trade, not insurance)	R0840	84,047
Subordinated liabilities	R0850	2,269,531
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	2,269,531
Any other liabilities, not elsewhere shown	R0880	1,163,375
Total liabilities	R0900	51,541,734
Excess of assets over liabilities	R1000	6,525,178

QRT Disclosure

S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	243,046	556,380		3,200,768	719,555	31,577	1,146,653	710,171	49,644	70,647	184,912	68,522					6,981,875
Gross - Proportional reinsurance accepted	R0120	164	616		(1)		153	5,005	3,814	46								9,797
Gross - Non-proportional reinsurance accepted	R0130													277	434		419	1,130
Reinsurers' share	R0140	2,073	10,275		38,197	4,514	13,653	80,039	26,566	22,795	55,478	160,344	348	9	30		45	414,366
Net	R0200	241,138	546,721		3,162,570	715,041	18,077	1,071,619	687,419	26,895	15,169	24,567	68,174	268	404		374	6,578,436
Premiums earned																		
Gross - Direct Business	R0210	239,222	551,970		3,204,134	689,304	31,252	1,127,404	696,514	48,688	66,686	177,351	67,063					6,899,589
Gross - Proportional reinsurance accepted	R0220	143	581		(1)		151	4,937	4,554	43			91					10,499
Gross - Non-proportional reinsurance accepted	R0230													277	434		419	1,130
Reinsurers' share	R0240	2,172	10,202		36,704	4,439	13,188	81,701	27,025	27,735	53,728	151,184	320	9	30		45	408,481
Net	R0300	237,192	542,349		3,167,429	684,865	18,215	1,050,640	674,044	20,996	12,958	26,167	66,835	268	404		374	6,502,736
Claims incurred																		
Gross - Direct Business	R0310	107,599	277,341		2,078,728	485,175	12,749	687,659	203,416	1,327	11,861	64,755	26,397					3,957,009
Gross - Proportional reinsurance accepted	R0320	4	(86)		283		332	5,238	2,101	(130)	8		(4)					7,744
Gross - Non-proportional reinsurance accepted	R0330													77	1,451	(29)	(74)	1,425
Reinsurers' share	R0340	351	4,438		13,232	44,221	4,166	120,662	5,232	4,303	9,717	59,145	490		(222)		(399)	265,334
Net	R0400	107,252	272,817		2,065,779	440,955	8,916	572,235	200,285	(3,106)	2,152	5,610	25,903	77	1,673	(29)	326	3,700,844
Changes in other technical provisions																		
Gross - Direct Business	R0410	2,492	(228)			(1,790)	(59)	(36,626)		5,214			(5)					(31,002)
Gross - Proportional reinsurance accepted	R0420							197										197
Gross - Non- proportional reinsurance accepted	R0430																	
Reinsurers'share	R0440																	
Net	R0500	2,492	(228)			(1,790)	(59)	(36,429)		5,214			(5)					(30,805)
Expenses incurred	R0550	103,055	235,914		1,008,507	238,823	16,091	494,812	297,658	33,383	(6,793)	7,677	28,112		()			2,457,241
Other expenses	R1200																	
Total expenses	R1300																	2,457,241

S.05.01.02

Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410		2,573,444	1,393,402	112,413				106	4,079,364
Reinsurers' share	R1420		1,109		4,884				21	6,013
Net	R1500		2,572,335	1,393,402	107,529				85	4,073,351
Premiums earned										
Gross	R1510		2,580,509	1,393,402	106,093				106	4,080,110
Reinsurers' share	R1520		967		5,025				21	6,013
Net	R1600		2,579,542	1,393,402	101,068				85	4,074,096
Claims incurred										
Gross	R1610		3,323,407	555,010	27,708				1,560	3,907,685
Reinsurers' share	R1620		8,728		544				961	10,233
Net	R1700		3,314,679	555,010	27,163				600	3,897,452
Changes in other technical provisions										
Gross	R1710		160,734	(1,069,459)	(2,065)				1,379	(909,410)
Reinsurers' share	R1720		8,114		(915)				919	8,118
Net	R1800		152,620	(1,069,459)	(1,150)				460	(917,528)
Expenses incurred	R1900		200,258	19,335	7,003				12	226,609
Other expenses	R2500									
Total expenses	R2600									226,609

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010																
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030	28,851,002		622,537	5,002,757		(72,608)			5,037	34,408,726						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	24,502					3,055			3,114	30,670						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090	28,826,501		622,537	5,002,757		(75,663)			1,923	34,378,055						
Risk Margin	R0100	168,299	19,431			22,257				5	209,992						
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110																
Best estimate	R0120																
Risk margin	R0130																
Technical provisions - total	R0200	29,019,301	5,644,726			(50,351)				5,042	34,618,718						

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	56,147	174,409		1,061,974	250,540	12,413	533,056	237,646	69,592	8,578	47,660	15,151					2,467,166
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	12	65		5,706	175	2,588	22,008	2,184	20,808			14					53,560
Net Best Estimate of Premium Provisions	R0150	56,135	174,344		1,056,268	250,364	9,825	511,049	235,462	48,783	8,578	47,660	15,137					2,413,606
Claims provisions																		
Gross	R0160	82,476	327,135		4,676,998	170,494	60,791	845,524	2,433,726	284,276	75,126	30,491	23,713	329	9,013	451	5,256	9,025,798
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	701	9,890		39,648	15,619	15,618	122,764	50,816	112,871	39,769	6	881					408,583
Net Best Estimate of Claims Provisions	R0250	81,775	317,244		4,637,350	154,875	45,173	722,760	2,382,910	171,405	35,358	30,485	22,833	329	9,013	451	5,256	8,617,215
Total Best estimate - gross	R0260	138,623	501,544		5,738,971	421,033	73,204	1,378,580	2,671,372	353,867	83,705	78,151	38,865	329	9,013	451	5,256	11,492,964
Total Best estimate - net	R0270	137,911	491,589		5,693,617	405,239	54,998	1,233,809	2,618,372	220,188	43,936	78,145	37,970	329	9,013	451	5,256	11,030,821
Risk margin	R0280	9,418	27,818		172,722	17,336	3,426	60,990	116,920	30,849	4,642	4,688	4,460	15	2,431	14	184	455,912
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	
Best estimate	R0300																	
Risk margin	R0310																	
Technical provisions - total																		
Technical provisions - total	R0320	148,041	529,362		5,911,694	438,369	76,630	1,439,570	2,788,292	384,716	88,346	82,839	43,325	343	11,444	465	5,440	11,948,876
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	713	9,955		45,354	15,795	18,206	144,772	53,000	133,679	39,769	6	895					462,143
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	147,328	519,407		5,866,339	422,575	58,424	1,294,798	2,735,292	251,037	48,578	82,833	42,430	343	11,444	465	5,440	11,486,733

S.19.01.21

Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	2018

Gross Claims Paid (non-cumulative)

(absolute amount)

		Development year										
Year		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											183,896
N-9	R0160	2,759,150	1,903,343	702,678	413,390	253,438	191,622	150,662	102,843	82,403	55,004	
N-8	R0170	2,412,457	1,636,215	597,867	318,756	200,982	160,431	118,497	86,254	54,474		
N-7	R0180	2,079,049	1,541,656	531,406	265,779	171,884	126,882	93,349	63,034			
N-6	R0190	1,855,708	1,250,354	496,342	271,307	153,548	113,590	74,761				
N-5	R0200	1,674,914	1,226,220	513,610	230,313	139,884	92,432					
N-4	R0210	1,412,732	1,239,988	421,549	195,441	113,252						
N-3	R0220	1,603,548	1,260,771	459,163	219,551							
N-2	R0230	1,718,725	1,316,520	443,689								
N-1	R0240	1,687,180	1,335,980									
N	R0250	1,778,122										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	183,896	183,896
	R0160	55,004	6,614,533
	R0170	54,474	5,585,931
	R0180	63,034	4,873,039
	R0190	74,761	4,215,610
	R0200	92,432	3,877,373
	R0210	113,252	3,382,962
	R0220	219,551	3,543,033
	R0230	443,689	3,478,933
	R0240	1,335,980	3,023,160
	R0250	1,778,122	1,778,122
Total	R0260	4,414,194	40,556,592

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

Year		Development year 0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											1,316,721
N-9	R0160							656,154	456,782	334,004	268,062	
N-8	R0170						710,122	517,569	360,271	273,502		
N-7	R0180					781,948	574,061	415,547	336,997			
N-6	R0190				918,462	675,331	490,829	392,326				
N-5	R0200			1,158,600	816,771	598,274	492,546					
N-4	R0210		1,455,017	941,561	686,811	490,165						
N-3	R0220	2,776,580	1,451,598	958,572	630,722							
N-2	R0230	2,728,507	1,478,278	829,235								
N-1	R0240	2,719,563	1,318,389									
N	R0250	2,655,587										

		Year end (discounted data)
		C0360
	R0100	1,323,220
	R0160	269,269
	R0170	274,564
	R0180	338,128
	R0190	393,457
	R0200	493,821
	R0210	491,141
	R0220	631,690
	R0230	830,247
	R0240	1,320,137
	R0250	2,660,124
Total	R0260	9,025,798

S.22.01.21
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	46,567,594			162,308	
Basic own funds	R0020	8,258,636			(111,499)	
Eligible own funds to meet Solvency Capital Requirement	R0050	8,258,636			(111,499)	
Solvency Capital Requirement	R0090	2,911,315			14,385	
Eligible own funds to meet Minimum Capital Requirement	R0100	7,403,189			(110,205)	
Minimum Capital Requirement	R0110	1,310,092			6,473	

S.23.01.01

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	2,031,456	2,031,456			
Share premium account related to ordinary share capital	R0030	407,256	407,256			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	3,631,076	3,631,076			
Subordinated liabilities	R0140	2,269,531		1,152,067	1,117,465	
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	80,684				
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	8,258,636	5,989,104	1,152,067	1,117,465	
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					

Available and eligible own funds						
Total available own funds to meet the SCR	R0500	8,258,636	5,989,104	1,152,067	1,117,465	
Total available own funds to meet the MCR	R0510	8,258,636	5,989,104	1,152,067	1,117,465	
Total eligible own funds to meet the SCR	R0540	8,258,636	5,989,104	1,152,067	1,117,465	
Total eligible own funds to meet the MCR	R0550	7,403,189	5,989,104	1,152,067	262,018	
SCR	R0580	2,911,315				
MCR	R0600	1,310,092				
Ratio of Eligible own funds to SCR	R0620	2.8367				
Ratio of Eligible own funds to MCR	R0640	5.6509				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	6,525,178	
Own shares (held directly and indirectly)	R0710	2,809	
Foreseeable dividends, distributions and charges	R0720	452,581	
Other basic own fund items	R0730	2,438,712	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	3,631,076	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	370,233	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	50,411	
Total Expected profits included in future premiums (EPIFP)	R0790	420,644	

S.25.02.21
Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0090	C0120
1	Market risk	2,372,234	2,303,312	None	None
2	Counterparty default risk	333,121	283,909	None	None
3	Life underwriting	258,901	191,647	None	None
10	Non-life and Health underwriting risk	1,849,835	208,789	Segment 1 Standard deviation for non–life premium risk, Segment 1 Standard deviation for non–life reserve risk, Segment 4 Standard deviation for non–life premium risk, Segment 4 Standard deviation for non–life reserve risk, Segment 5 Standard deviation for non–life premium risk, Segment 5 Standard deviation for non–life reserve risk	None
6	Intangible asset risk			None	None
7	Operational risk	475,518		None	None
8	Loss-absorbing capacity of technical provisions	(491,014)		None	None
9	Loss-absorbing capacity of deferred taxes	(841,496)		None	None
11	Conservative Margin	52,807		None	None

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	4,009,906
Diversification	R0060	(1,107,243)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	2,911,315
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	2,911,315
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	(491,014)
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(841,496)
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	2,888,786
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	22,530
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities MCR(NL,NL) Result	Life activities MCR(NL,L) Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	1,641,728	

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
Medical expense insurance and proportional reinsurance	R0020	137,911	244,064		
Income protection insurance and proportional reinsurance	R0030	491,589	550,349		
Workers' compensation insurance and proportional reinsurance	R0040				
Motor vehicle liability insurance and proportional reinsurance	R0050	5,693,617	3,162,540		
Other motor insurance and proportional reinsurance	R0060	405,239	715,041		
Marine, aviation and transport insurance and proportional reinsurance	R0070	54,998	17,927		
Fire and other damage to property insurance and proportional reinsurance	R0080	1,233,809	1,073,114		
General liability insurance and proportional reinsurance	R0090	2,618,372	687,419		
Credit and suretyship insurance and proportional reinsurance	R0100	220,188	26,895		
Legal expenses insurance and proportional reinsurance	R0110	43,936	15,169		
Assistance and proportional reinsurance	R0120	78,145	24,567		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	37,970	68,173		
Non-proportional health reinsurance	R0140	329	277		
Non-proportional casualty reinsurance	R0150	9,013	434		
Non-proportional marine, aviation and transport reinsurance	R0160	451			
Non-proportional property reinsurance	R0170	5,256	419		

		Non-life activities MCR(L,NL) Result	Life activities MCR(L,L) Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	R0200		988,929

		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
Obligations with profit participation - guaranteed benefits	R0210			27,253,698	
Obligations with profit participation - future discretionary benefits	R0220			1,574,336	
Index-linked and unit-linked insurance obligations	R0230			5,625,294	
Other life (re)insurance and health (re)insurance obligations	R0240				
Total capital at risk for all life (re)insurance obligations	R0250				32,900,675

Overall MCR calculation		C0130
Linear MCR	R0300	2,630,657
SCR	R0310	2,911,315
MCR cap	R0320	1,310,092
MCR floor	R0330	727,829
Combined MCR	R0340	1,310,092
Absolute floor of the MCR	R0350	7,400
		C0130
Minimum Capital Requirement	R0400	1,310,092

Notional non-life and life MCR calculation		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	1,641,728	988,929
Notional SCR excluding add-on (annual or latest calculation)	R0510	1,816,880	1,094,435
Notional MCR cap	R0520	817,596	492,496
Notional MCR floor	R0530	454,220	273,609
Notional Combined MCR	R0540	817,596	492,496
Absolute floor of the notional MCR	R0550	3,700	3,700
Notional MCR	R0560	817,596	492,496

INDEPENDENT AUDITOR'S REPORTS

UnipolSai Assicurazioni SpA

Independent auditor's report

in accordance with article 47-septies, paragraph 7 of Legislative Decree 7 September 2005, n° 209 and article 4, paragraph 1, points A and B, of the IVASS Regulation n° 42 of 2 August 2018

Templates "S.02.01.02 Balance sheet" and "S.23.01.01 Own funds" and related disclosures included in the Solvency and Financial Condition Report as at 31 December 2019

pwc

Independent Auditor's Report

in accordance with article 47-septies, paragraph 7 of Legislative Decree 7 September 2005, n° 209 and article 4, paragraph 1, points A and B, of the IVASS Regulation n° 42 of 2 August 2018

To the Board of Directors of
UnipolSai Assicurazioni SpA

Templates "S.02.01.02 Balance sheet" and "S.23.01.01 Own funds" and related disclosures included in the Solvency and Financial Condition Report as at 31 December 2019

Opinion

We have audited the accompanying elements to the Solvency and Financial Condition Report (the "SFCR") of UnipolSai Assicurazioni SpA (the "Company") as at 31 December 2019, prepared in accordance with article 47-septies of Legislative Decree 7 September 2005, n° 209:

- templates "S.02.01.02 Balance sheet" and "S.23.01.01 Own funds" (the "MVBS and OF Templates");
- sections "D. Valuation for solvency purposes" and "E.1 Own Funds" (the "Disclosures").

Our procedures have not covered:

- the technical provisions components related to the Risk Margin (lines R0550, R0590, R0640, R0680 and R0720) on the template "S.02.01.02 Balance sheet";
- the Solvency Capital Requirement (line R0580) and the Minimum Capital Requirement (line R0600) on the template "S.23.01.01 Own funds",

that are out of scope from our opinion.

The MVBS and OF Templates and the Disclosures, with the exclusions listed above, compose the "MVBS and OF Templates and related disclosures".

In our opinion, the MVBS and OF Templates and related disclosures included in the SFCR of UnipolSai Assicurazioni SpA as at 31 December 2019 have been prepared, in all material respects, in accordance with the applicable EU requirements and with the Italian laws for the insurance business.

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Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the* MVBS and OF *Templates and related disclosures* section of this report.

We are independent of the Company pursuant to the regulations and standards of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) that are relevant to our audit of the templates and related disclosures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis matter - Basis of accounting, purposes and restriction of use

We draw attention to the section "D. Valuation for solvency purposes" which describes the basis of accounting. The MVBS and OF Templates and related disclosures have been prepared, for solvency supervisory requirements, in accordance with the applicable EU requirements and the Italian laws for the insurance business, which compose a special purpose framework. As a result, they may not be suitable for other purposes. Our opinion is not modified with reference to this aspect.

Other matters

The Company has prepared the financial statements for the year ended 31 December 2019 in accordance with the Italian laws governing the criteria for their preparation, that had been audited by us with report issued on 7 April 2020.

The Company has prepared the templates "S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model" and "S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance activity" and the related disclosures provided in section "E.2 Solvency Capital Requirement and Minimum Capital Requirement" of the accompanying SFCR in accordance with the applicable EU requirements, the Italian laws for the insurance business, the Partial Internal Model and the Company's specific parameters, reviewed by us in accordance with article 4 paragraph 1 point c) of the IVASS Regulation n°42 of 2 August 2018, as a result of which today we issue a limited review report accompanying the SFCR.

Other matters in the SFCR

The Management is responsible for the preparation of the other information included in the SFCR in accordance with laws governing the criteria for their preparation.

Other information included in the SFCR are:

- templates "S.05.01.02 Premiums, claims and expenses by line of business", "S.12.01.02 Life and Health SLT Technical Provisions", "S.17.01.02 Non-life Technical Provisions", "S.19.01.21 Non-life Insurance Claims Information", "S.22.01.21 Impact of long term guarantees measures and transitionals", "S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model" and "S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance activity";
- sections "A. Business and performance", "B. System of governance", "C. Risk profile", "E.2 Solvency Capital Requirement and Minimum Capital Requirement", "E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement", "E.4 Differences between the standard formula and any internal model used", "E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement" e "E.6 Other information".

Our opinion on the MVBS and OF Templates and related disclosures does not cover these other information.

With reference to the audit of the MVBS and OF Templates and related disclosures, our responsibility is to carry out a critical review of the other information and consider whether the same are significantly inconsistent with the MVBS and OF Templates and related disclosures or with our knowledge acquired during the audit or may be significantly incorrect. If we identify possible inconsistencies or significant errors, we are required to determine whether there is a significant error in the MVBS and OF Templates and related disclosures or in the other information. If, based on the work performed, we conclude that there is a significant error, we have to report this matter. With reference to this, we have nothing to report.

Responsibilities of Management and Those Charged with Governance for the MVBS and OF Templates and related disclosures

Management is responsible for the preparation of the MVBS and OF Templates and related disclosures in accordance with laws governing the criteria for their preparation and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of the MVBS and OF Templates and related disclosures that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the MVBS and OF Templates and related disclosures, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the MVBS and OF Templates and related disclosures, Management uses the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the MVBS and OF Templates and related disclosures

Our objectives are to obtain reasonable assurance about whether the MVBS and OF Templates and related disclosures as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the MVBS and OF Templates and related disclosures.

As part of an audit conducted in accordance with International Standards on Auditing (ISAs), we exercised our professional judgement and maintained professional scepticism throughout the audit.

Furthermore:

- we identified and assessed the risks of material misstatement of the MVBS and OF Templates and related disclosures, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit of the MVBS and OF Templates and related disclosures in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- we concluded on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the SFCR or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicated with Those Charged with Governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided Those Charged with Governance with a statement that we complied with the regulations and standards on ethics and independence applicable in accordance with the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Milan, 20 April 2020

PricewaterhouseCoopers SpA

Signed by

Antonio Dogliotti
(Partner)

This report has been translated into the English language from the original, which was issued in Italian and in accordance with Italian law, solely for the convenience of international readers.

UnipolSai Assicurazioni SpA

Independent auditor's review report

in accordance with article 47-septies, paragraph 7 of Legislative Decree 7 September 2005, n° 209 and article 4, paragraph 1, point C, of the IVASS Regulation n° 42 of 2 August 2018

Templates "S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model" and "S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance activity" and related disclosures included in the Solvency and Financial Condition Report as at 31 December 2019

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Independent Auditor's Review Report

in accordance with article 47-septies, paragraph 7 of Legislative Decree 7 September 2005, n° 209 and article 4, paragraph 1, point C, of the IVASS Regulation n° 42 of 2 August 2018

To the Board of Directors of
UnipolSai Assicurazioni SpA

Templates "S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model" and "S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance activity" and related disclosures included in the Solvency and Financial Condition Report as at 31 December 2019

Foreword

We have reviewed the Templates "S.25.02.21 Solvency Capital Requirement - for undertakings using the standard formula and partial internal model" and "S.28.02.01 Minimum Capital Requirement - Both life and non-life insurance activity" (the "SCR and MCR Templates") and related disclosure reported in section "E.2 Solvency Capital Requirement and Minimum Capital Requirement" (the "disclosures" or the "related disclosures") of the accompanying Solvency and Financial Condition Report (the "SFCR") of UnipolSai Assicurazioni SpA (the "Company") as at 31 December 2019, prepared in accordance with article 47-septies of Legislative Decree 7 September 2005, n° 209.

The SCR and MCR Templates and related disclosures, have been prepared by Management in accordance with the applicable EU requirements, the Italian laws for the insurance business, the Partial Internal Model and the Company's specific parameters as described in the SFCR disclosure and as approved by IVASS.

Responsibilities of Management

Management is responsible for the preparation of the SCR and MCR Templates and related disclosures in accordance with the applicable EU requirements, the Italian laws for the insurance business, the Partial Internal Model and the Company's specific parameters as described in the SFCR disclosure and as approved by IVASS and, in the terms prescribed by law, for such internal control as Management determines is necessary to enable the preparation of the SCR and MCR Templates and related disclosures that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibilities

Our responsibility is to express a conclusion on the SCR and MCR Templates and related disclosures. We conducted our review in accordance with International Standard on Review Engagements *ISRE 2400 (Revised), Engagements to Review Historical Financial Statements. ISRE 2400 (Revised)* requires us to conclude whether anything has come to our attention that causes us to believe that the SCR and MCR Templates and related disclosures, taken as a whole, are not prepared in all material respects in accordance with the applicable EU requirements, the Italian laws for the insurance business, the Partial Internal Model and the Company's specific parameters as described in the SFCR disclosure and as approved by IVASS. This Standard also requires us to comply with relevant ethical requirements.

A review of the SCR and MCR Templates and related disclosures in accordance with *ISRE 2400 (Revised)* is a limited assurance engagement. The auditor performs procedures, primarily consisting of making inquiries of Management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs).

Accordingly, we do not express an audit opinion on these SCR and MCR Templates and related disclosures.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these SCR and MCR Templates and related disclosures included in the accompanying SFCR of UnipolSai Assicurazioni SpA for the year ended 31 December 2019, do not present fairly, in all material respects in accordance with the applicable EU requirements, the Italian laws for the insurance business, the Partial Internal Model and the Company's specific parameters as described in the SFCR disclosure and as approved by IVASS.

Basis of accounting, purposes and restriction of use

Without modifying our conclusion, we draw attention to the section "E.2 Solvency Capital Requirement and Minimum Capital Requirement" of the SFCR which describes the basis of preparation of the SCR and MCR Templates. The SCR and MCR Templates and related disclosures have been prepared, for solvency supervisory requirements, in accordance with the applicable EU requirements and the Italian laws for the insurance business, the Partial Internal Model and the Company's specific parameters as described in the SFCR disclosure and as approved by IVASS, which collectively compose a special purpose framework.

Therefore, in accordance with article 13 of the IVASS Regulation n° 42 of 2 August 2018, the approvals, waivers or other decisions taken by IVASS, including the structure of the model, were considered by us as part of the standard for our work and the SCR and MCR Templates and related disclosures may not be suitable for other purposes. In particular, as per articles 46-bis and 46-ter of Legislative Decree 7 September 2005, n° 209, the model briefly described in the SFCR disclosure was approved by IVASS in carrying out its own duties and can differ from the models approved for other insurance companies.

Milan, 20 April 2020

PricewaterhouseCoopers SpA

Signed by

Antonio Dogliotti
(Partner)

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entered in the Register of the parent companies
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